Why do 16% of the world's adults dream of moving to another country permanently?

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In 2009, a Gallup survey found that about 16 per cent of the world's adult population would like to permanently migrate to another country. International migration of such magnitude may have far-reaching consequences for sending and destination countries. For instance, between destination countries it may induce competition for talent, i.e. high-skill migrants, in order to cope with ageing populations and shrinking workforces. Countries of origin, by contrast, may fear that the emigration may lead to, e.g., labour force shortages and a loss of critical knowledge, with a 'brain drain' consequently threatening economic development.

Why do individuals migrate? Previous studies identify various push factors (i.e., conditions in the migrants' home countries that encourage migration) such as poor economic performance, corruption and terrorism that make individuals leave their home countries. We argue that in addition to these factors, economic freedom also matters.

Indeed, as shown in Table 1, for the 1980-2010 period, economic freedom (measured by an index accounting for the size of the government, inflation, property rights protection, market regulation and access to international markets) has always been markedly lower in the 91 sending (developing and emerging) countries we consider in our empirical analysis compared to the 20 most attractive OECD destination countries. Potentially, a lack of economic freedom at home explains out-migration to countries where economic freedom is higher. Conversely, when economic freedom is already high at home, there may be fewer incentives to migrate to another country.

Table 1: Economic Freedom in Sending and Target Countries of Migration, 1976-2010

	Mean Economic Freedom Index: Sending Countries	Mean Economic Freedom Index: Target Countries	Difference Target vs. Sending Countries
1976-1980	4.821	6.316	1.495
1981-1985	4.828	6.660	1.832
1986-1990	4.994	7.039	2.045
1991-1995	5.410	7.529	2.119
1996-2000	5.967	7.804	1.837
2001-2005	6.341	7.862	1.520
2006-2010	6.595	7.773	1.178

OECD target countries of migration: Australia, Austria, Canada, Chile, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

We argue that higher levels of economic freedom in the migrants' home country may reduce incentives to migrate via three channels: First, more economic freedom creates more economic security in form of better protected property rights and lower levels of taxation, which increases income and secures wealth in the migrants' home country. Second, more economic freedom creates additional economic opportunities by providing greater access to markets and limiting regulation, which facilitates entrepreneurship at home. Third, more economic freedom stimulates economic growth. Through all three channels, higher levels of economic freedom can be expected to discourage out-migration by making the home country more attractive, thus increasing the opportunity costs of migration.

Our empirical analysis uses data on migration from 91 developing and emerging countries to the 20 most attractive OECD destination countries for the 1980-2010 period, and provides evidence that cross-country differences in economic freedom indeed explain why some countries see more out-migration than others. We find that higher levels of economic freedom in the migrants' home countries are associated with less migration to OECD countries.

Furthermore, we analyse whether the incentives created by economic freedom matter differently to low-skill migrants (with only basic education) compared to high-skill ones (with post-secondary education). In line with previous studies, we indeed show that the effect of economic freedom on migration differs with the migrants' education profile. We find that the highly educated are responsive to the incentives created by economic freedom, especially in the form of more economic security (i.e., better property rights protection as well as lower levels of taxation, inflation and government redistribution).

Consequently, a lack of institutions securing economic freedom encourages the highly skilled to leave their home country. Our findings are also economically substantial: With an 18 per cent increase of economic freedom (which is equivalent to the development of Singapore from 1980-2010 or the average difference between Estonia and El Salvador), the share of high-skill persons leaving the country decreases by 14 per cent on average. By contrast, low-skilled migration is not associated with the level of economic freedom in sending countries in statistically significant or economically substantive ways.

Our findings have important implications for policy-makers in both the target and sending countries of migration. First, our results implicitly suggest that in order to remain attractive for high-skill labour, the receiving OECD countries ought to continue to offer high levels of economic freedom, most importantly associated with the protection of property, income and wealth. This might be also of interest for European destination countries since they are currently less successful than North America in attracting high-skill migrants (see here), where most of them also have lower levels of economic freedom (see here). Second, sending countries that fear losing their most educated citizens and want to discourage their out-migration are well-advised to remove institutional barriers that limit economic freedom, particularly with respect to the provision of economic security.

For instance, related policies may include reforms to strengthen judicial integrity to better protect property rights, sound monetary policies that promote price stability as well as reduced intrusion of the government into the economic life. Such efforts ought to be especially appropriate for sending countries when the costs of high-skill migration (e.g., due to skill and labour shortages or “wasted” public investments from training of high-skill migrants) outweigh its potential benefits (from, e.g., remittances and knowledge spill-overs).

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- *This article is based on the authors’ paper Stymied ambition: Does a lack of economic freedom lead to migration? (No. 2016-05). Discussion Paper Series, Wilfried-Guth-Stiftungsprofessur für Ordnungs-und Wettbewerbspolitik. It was presented at the 31st annual meeting of the European Economic Association, in Geneva, Switzerland, August 2016.*
- *The post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
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