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Financial Liberalization and the Brain Drain: A Panel Data Analysis
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Abstract:
This paper explores the impact of financial liberalization on the migration of high skilled labor from 46 countries to the OEC taken at five year intervals over the period 1985-2000. Using an exploratory factor analysis, we are able to distinguish betwe two dimensions of financial liberalization, namely the robustness of the markets and their freedom from direct government control. We find that a standard deviation improvement in the robustness of the source country financial sector magnifies th extent of brain drain by a factor of about four percentage points on the average. However, a corresponding increase in the freedom of the source country financial sector from government control has a modest negative impact on the emigration of skilled labor and the effect is not statistically significant. Further, the impact of improved financial sector robustness on selection is more pronounced for non-OECD economies than for OECD nations, which experience virtually no impact on sk emigration.

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