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## Economic freedom and migration from Ukraine: The case of well-educated youth

**Economic Freedom and Migration from Ukraine: the Case of Well-Educated Youth.** This paper is based on the idea that there is a special pattern in migration of the well-educated youth from Ukraine connected with the difference in levels of economic freedom that include higher salary and welfare. The survey was conducted in order to obtain data regarding influence of the level of economic freedom on the decision to leave and choice of the target country. The analysis of the survey results was carried out in terms of economic freedom and its importance to the respondents, that has brought authors to the conclusion that economic freedom is indeed important factor for educated youth when the decision to leave is made.

**Keywords:** economic freedom, culture, migration, economic liberalization, welfare.

**Економічна свобода та міграція з України (на прикладі високоосвіченої молоді).** Стаття присвячена дослідженню особливостей еміграції високоосвіченої молоді з України, зокрема, зв'язку між різницею в рівнях економічної свободи, що включає вищий рівень оплати праці та добробуту. За допомогою опитування отримано інформацію щодо впливу рівня економічної свободи на рішення щодо еміграції та вибору країни-реципієнта. У результаті аналізу результатів опитування через призму важливості економічної свободи та її значення для респондентів, автори дійшли до висновку, що економічна свобода насправді виступає важливим фактором для прийняття рішення про еміграцію.

**Ключові слова:** економічна свобода, культура, міграція, економічна лібералізація, добробут.

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## INTRODUCTION

Migration issues in Ukraine are diverse and include complex societal and economic challenges, as well as mentality pattern that have to be investigated. At the same time, migration is important for Ukrainian economy as a source of foreign currency and opportunities to decrease unemployment. Inevitably, there are many shortfalls in present policy towards migration issues. There are many opportunities for young people to study or work abroad, and lack of incentives to come back to Ukraine and utilize the experience. Migration from Ukraine is highly diversified nowadays, and many of migrants are working as a low-skilled workforce in other countries and even though it is a downshift for their professional life, they are prepared to go for it in order to increase welfare and support their families<sup>1</sup>.

Economic theory takes perspective on economic freedom as influential factor for incentives, productive efforts and effective resource allocation<sup>2</sup>, this is multidimensional phenomenon. According to Fukuyama (1992), the economic liberalism and its growth has been remarkable macro political phenomenon of the last four hundred years<sup>3</sup>, but we have to mention that in case of the transition economies like Ukraine where authoritarian state was adverse to any kind of freedom society had to go through liberalization once more after the change of the regime. Among of the most important impediments to economic freedom are bureaucracy<sup>4</sup> and corruption.

*“Economic freedom is a composite that attempts to characterize the degree to which an economy is a market economy—that is, the degree to which it entails the possibility of entering into voluntary contracts within the framework of a stable and predictable rule of law that upholds contracts and protects private property, with a limited degree of interventionism in the form of government ownership, regulations, and taxes. Economic freedom is distinct from political freedom (participation in the political process on equal conditions, actual competition for political power, and free and fair*

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<sup>1</sup> S. J. Commander, O. Nikolaychuk, & D. Vikhrov, *Migration from Ukraine: Brawn or brain? New survey evidence*, EBRD, 2013, p. 2.

<sup>2</sup> J. E. Sturm, , & J. De Haan, *How robust is the relationship between economic freedom and economic growth?*. “Applied Economics”, 2001, 33(7), p. 840

<sup>3</sup> F. Fukuyama, *The End of History and The Last Man*. Penguin, London 1992, p. 48.

<sup>4</sup> E. B. Ayal and G. Karras. *Bureaucracy, investment, and growth*. “Economics Letters” 51.2, 1996: 233–239.

*elections) and from civil freedom (protection against unreasonable visitations, access to fair trials, freedom of assembly, freedom of religion, and freedom of speech)<sup>5</sup>.*"

The post-communist period in Ukraine was characterized by deep and prolonged recession accompanied with social and economic liberalization. In terms of economic freedom Gwartney et al. (2015) point out access to sound money as one of the five broad areas that define economic freedom alongside with size of the government, legal structure and security of property rights, freedom to trade internationally and regulation of credit, labor and business<sup>6</sup>.

This research is intended to explore the connection between migration and economic freedom for the young people from Ukraine, as directions of institutional capacity building policy after partial installation of market mechanisms<sup>7</sup>. The main research question is whether economic freedom plays important role in decision concerning migration. Our reflections concerning these issues are based on survey carried out as a part of study course "Ukrainian Ethnology and Ethnopsychology" by students based on the survey guide designed by the authors. The initial aim of the survey was to analyze the lifestyle of Ukrainian diaspora in different countries. This study is explorative and descriptive. The paper is aimed to provide exploration of reasons prompting young people to leave Ukraine and what is the role of economic freedom in this process. In our analysis we target certain group of population and situation in particular environment, we used qualitative analysis, particularly interviews. The secondary data was used to get a broader understanding of the research questions.

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<sup>5</sup> N. Berggren, *The benefits of economic freedom: a survey*. "The Independent Review", 2003, 8(2), p. 193.

<sup>6</sup> J. Gwartney, R. Lawson, & J. Hall, *Economic freedom of the world*. Fraser Institute, 2015, [online] <http://www.freetheworld.com/2015/economic-freedom-of-the-world-2015.pdf> [access date: 04.09.2015].

<sup>7</sup> D. Smallbone, F. Welter, A. Voytovich & I. Egorov, *Government and entrepreneurship in transition economies: the case of small firms in business services in Ukraine*, "The Service Industries Journal", 2010, 30:5, p. 656.

## FRAME OF REFERENCE

Classical economic theory has recognized the economic freedom as essential factor for national economic development. Present study refers to two main categories: “migration” and “economic freedom”. As noted by Ashby (2007) the interconnection between economic freedom and migration is characterized by the inflow of migrants to the territories with relative higher income and more workplaces based on his research of the migration pattern across different states in the USA<sup>8</sup>. The relationship between economic freedom and migration could be different among people with different educational background as it is shown in Byers et al. (1999)<sup>9</sup>, Mulholland & Hernández-Julián (2013)<sup>10</sup>.

The economic freedom is accessed using different indices that include different areas regulated by the state through economic policies. We used the Economic Freedom of the World dataset in order to distinguish between levels of economic freedom in different countries discussed in Gwartney et al. (2015)<sup>11</sup>.

As noted in Friedman (1991), economic freedom is associated with the free private markets that are employed as mechanism for achieving voluntary cooperation among people<sup>12</sup>.

According to Cebula and Clark (2010) if we follow the logic of investment decision, there are two kinds of considerations taken into account by emigrants<sup>13</sup>. The first one is economic conditions, including economic freedom and the other one is environmental and quality-of-life factors. We use the survey as a source of information regarding the most influential factors for the respondents.

Thus, migrants take into account the local government policy and their differences and “vote with their feet”, according to the model developed in Tiebout

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<sup>8</sup> N. J. Ashby, *Economic freedom and migration flows between US states*. “Southern Economic Journal”, 2007, p. 678

<sup>9</sup> J. Byers, R. McCormick, & B. Yandle, *Economic freedom in America's 50 states*. Manuscript. 1999 [online] <http://sixmile.clemson.edu/freedom/index.htm> [access date: 12.09.2015].

<sup>10</sup> S. E. Mulholland, & R. Hernández-Julián, *Does economic freedom lead to selective migration by education*. “Journal of Regional Analysis & Policy”, 2013, 43(1), p. 65–87.

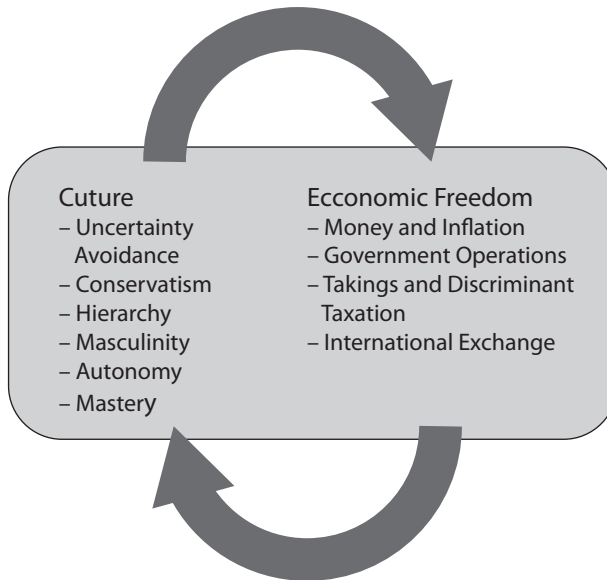
<sup>11</sup> J. Gwartney, R. Lawson, & J. Hall, *Economic freedom of the world...*, [online].

<sup>12</sup> M. Friedman, *Economic freedom, human freedom, political freedom*. The Smith Center for Private Enterprise Studies, Inaugural Lecture, 1991 [online] <http://calculemus.org/lect/07pol-gosp/frlect.html> [access date: 12.09.2015].

<sup>13</sup> R. J. Cebula, & J. R. Clark, *Migration, economic freedom, and personal freedom: An empirical analysis*. “Journal of Private Enterprise”, 2011, 27(1), p. 45

(1956) in order to get the public goods of the highest quality at the lowest price<sup>14</sup>. The quality of the public goods in particular country has to correspond with the prices of these goods.

There is a stream of research that ties cultural variables to economic variables (see Hofstede, 1980<sup>15</sup>, Johnson and Lenartowicz,<sup>16</sup>) and economic freedom could be the link between culture and economic growth. Economic liberalization often brings more opportunities for development through domestic and international competition and less restrictive economic policy approach.



**Fig 1.** The interconnection between culture and economic freedom.

Source: adapted from J. P. Johnson, and T. Lenartowicz. *Culture...* p. 343.

As shown on Fig.1, there is an interconnection between culture and economic freedom, changes in culture affect economic freedom, but the opposite effect is also possible. To our mind, Ukrainian culture is different from other countries

<sup>14</sup> C. M. Tiebout, A pure theory of local expenditures. "The journal of political economy", 1956, p. 416–424

<sup>15</sup> G. Hofstede *Culture's consequence: International differences in work-related values*. Beverly Hills, CA.: Sage, 1980.

<sup>16</sup> J. P. Johnson, and T. Lenartowicz. *Culture, freedom and economic growth: do cultural values explain economic growth?*. Journal of World Business 33.4, 1999, p. 332–356.

and is characterized by power distance, hierarchy and top-down approach. This leads to some obstacles in development of economic freedom, but in case of further liberalization and development of civil society, the culture itself may change over time.

#### DATA COLLECTION METHOD

Interviews were chosen to collect the empirical data needed to get an insight about situation and processes within Ukrainian diaspora. It is important to understand what challenges migrants have to face both before and after immigration and how they have adapted to the new environment.

We chose the convenience sampling and interviewed 40 migrants from Ukraine of different background with higher education. These people were chosen because of their accessibility and personal contacts. It gave us an advantage, because we can look deeper into the issue. We used secondary data for our research to get broader understanding of the case. We analyzed the surveys, documents and current legislative base concerning migration in Ukraine.

We took into account possibility of participant's error, meaning that research settings may influence the results<sup>17</sup> and thus interviews took place in the most suitable time chosen by interviewee in written form and in native language (Ukrainian). There are several limitations to this research. The first limitation of our research is lack of reach to bigger number of respondents. However, since we discuss well-educated youth it only means that results can hardly be generalized among other categories. The second limitation is that the interconnection between economic freedom and migration of well-educated youth requires further investigation and broader empirical data in order to increase validity of the results. Furthermore, it would be greatly beneficial to benchmark the acquired results with the opinion of the representatives of well-educated youth who did not decide to leave Ukraine in order to find out which factors influenced their decision to stay.

Having ethical issues in mind, we are not disclosing the names of our respondents. Data is obtained and reinforced from the different sources. It means

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<sup>17</sup> M.N.K Saunders, P. Lewis, & A. Thornhill, *Research methods for business students* (3rd ed.). Harlow: FT Prentice Hall, 2003, p. 296

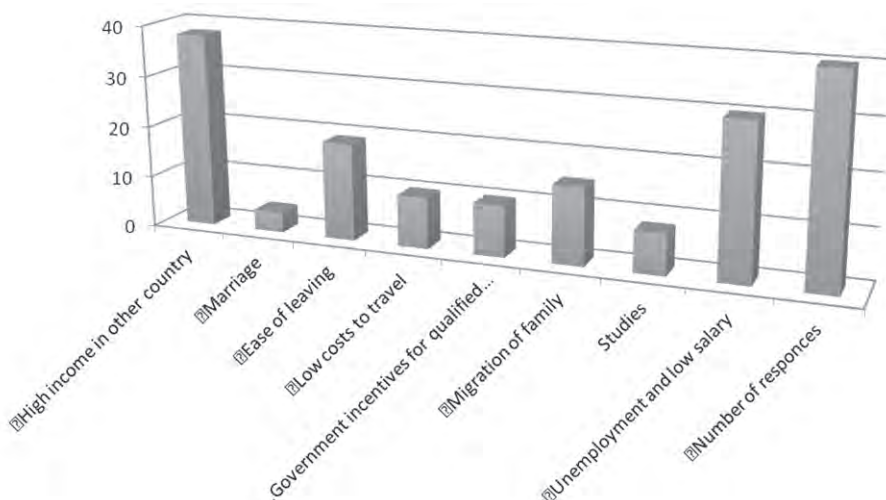
that multiple instruments are applied and data is triangulated. That gives us an opportunity to assume that we obtained relevant data and can reach the goal of research as well as to provide possible development of present research.

Interviewees were asked to fill in written survey and then these results were analyzed in order to find out more about motives to leave Ukraine and go abroad. In order to understand the current position of the respondents in comparison with the citizens of the country of residence they were asked to indicate their own assessment of their welfare. Moreover, the last question was about plans to go back to Ukraine and conditions providing the comeback.

## DATA/EMPIRICAL SECTION

The following section is intended to discuss the data acquired through interviews and put it into the context of the present study in order to shed a light on the matters regarding research question.

Majority of the respondents have crossed border legally and have the same benefits and social guarantees as citizens of the target country, the main motivation for them to leave Ukraine were broader opportunities to increase their welfare and employ all capabilities and skills (Fig. 2.).



**Fig. 2.** Motivation to leave Ukraine expressed by the respondents

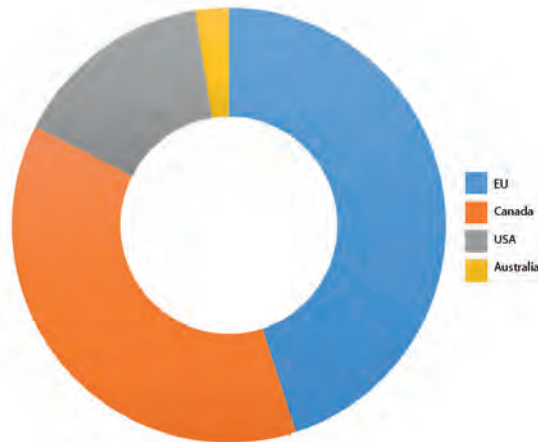
Source. Author's calculations.

The target countries include Canada, the EU, Australia and the USA; these countries were chosen by the respondents due to beneficial legislation and welfare (see Fig. 3.).

Some of the respondents left when they were children, and did not make the choice of the target country, but they still indicated more than one reason to leave. This is due to the fact that they know the reasons that made their families choose to leave to a certain country.

These countries are ranked in the highest first and second quartiles in the Economic Freedom Rating for 2013. Canada is ranked 9th, USA – 16th, Australia is 11th, while Ukraine is 128<sup>th</sup> (in the fourth quartile) out of 157 countries in the rating according to Gwartney et al. (2015).

Developed countries are characterized by the level of state activity that is beneficial for individual welfare and have tendency towards competitiveness in social and economic areas. Less liberal economies are more prone to hierarchical and conservative approach to regulating social life in order to preserve the status quo in the society and prevent changes.



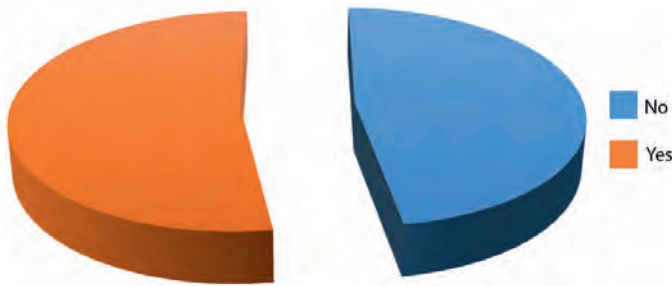
**Fig. 3.** Countries of residence of the respondents

Source. Author's calculations.

Concerning intention of the respondents to come back to Ukraine, the answers were divided almost by half (see Fig. 4.). Some of the respondents state the intention to come back to Ukraine under a set of circumstances, that are tightly connected with the issue of economic freedom.



Among positive answers to the question concerning possibility to come back to Ukraine there were different kinds of conditions. Firstly, they indicate that this might be connected with visiting their family and friends or after the retirement. Secondly, some of the respondents are prepared to come back to Ukraine if condition in the country of residence will change or they will lose their job. Thirdly, some of the respondents have stated that they are waiting for changes in Ukraine, which will enable them to find proper work with high salary or accumulate capital for enterprise.



**Fig. 4.** Intention to come back to Ukraine

Source. Author's calculations.

## ANALYSIS

The survey questions did not include the words “economic freedom”, since the concept of economic freedom might be confusing for respondents. But the answers of the respondents indicated that the economic freedom is important for their welfare, even though some areas are more important for certain respondent based on their level of education, age and work experience.

Table 1.

Economic freedom rating of Ukraine ( points, out of 10)										
1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
3,4	4,58	5,74	5,88	5,84	5,8	5,8	5,87	6,12	6,24	6,13

Source: Gwartney, J., Lawson, R., & Hall, J. Economic freedom of the world. Fraser Institute, 2015.

Table 1 shows the overall economic freedom rating of Ukraine in 1995–2013, and there was a substantial improvement between 1995 and 2000, as well as between 2000 and 2005, but after 2005 the rating was nearly 6 out of 10 until 2013. Thus, we can conclude that the economic liberalization in Ukraine has resulted in improvements, but since the process of building of institutional capacity was not fast enough, the institutions became rigid and outdated.

The retrospective analysis of Ukrainian migration in the period of independence might help us understand broader issues connected with migration of Ukrainians. The liberalization of social and economic life has brought the need for every citizen to adapt to the new rules of life in the “market”. Long and deep recession created fewer incentives to stay than to leave Ukraine<sup>18</sup>. The estimated number of emigrants according to the World Bank (2010) is 6,5 million people. This figures look threatening for the Ukrainian economy and could lead to depopulation and shrinking potential for development. The main welfare indicators in Ukraine such as minimum wage do not correspond with the needs of correspond with the level of natural human needs, leaving no sources for the development of human capital. Our respondents are young adults that have to work in order to increase returns on the acquired human capital and when they weight in the benefits and risks of emigration from Ukraine.

## CONCLUSION

Our research of the role of economic freedom in emigration of highly educated youth from Ukraine has focused on the use of the survey of the people who have made a decision to leave. We have described the results of the survey in Data section and reviewed the connection between economic freedom and decision to move to another country.

There is a distinction between those emigrants who moved permanently and those who might go back to Ukraine. The latter have a set of conditions that would make their intention to come back stronger. Corruption, institutional underdevelopment and lack of law enforcement policies that work are among the most important reasons that have prompted these people to leave. Should the situation change, they would be highly inclined to come back to Ukraine

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<sup>18</sup> O. Malynovska, *Migration in Ukraine: challenge or chance?.* “European View”, 2007, 5, p. 73.

and even start new businesses with the capital they earned when they worked abroad.

From the viewpoint of the objective of this study, the most attractive countries for the inflow of the young well-educated Ukrainians display higher level of economic freedom and this results in higher flow of immigrants. On the other hand, low rate of economic freedom may result in outflow of migrants and, in case of the well-educated youth, may result further brain drain from Ukraine that will result in lower economic growth rate.

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