



H.F.R.I.
Hellenic Foundation for
Research & Innovation

Description of the funded research project
2nd Call for H.F.R.I. Research Projects
to Support Post-Doctoral Researchers

Title of the research project: On the Great Greek Brain Drain:
A Macroeconomic Approach (GREBRAD)

Principal Investigator: Eugenia Vella

Reader-friendly title: Greek Brain Drain

Scientific Area: Social Sciences

Origin Institution and Country: University of
Sheffield, U.K.

Host Institution: Athens University of Economics
and Business

Collaborating Institution(s):

**Project webpage
(if applicable):**



Budget: 139,621€

Duration: 05/11/2020-04/11/2022

Research Project Synopsis

During the Great Recession, the phenomenon of human capital flight from Greece, commonly referred to as “brain drain”, received a lot of attention both in the media and in academic and policy circles. High unemployment and lack of work opportunities, together with fiscal austerity, contributed to this notable increase in migration outflows. Existing studies in the fiscal consolidation literature have not investigated the brain drain channel. The project will (a) theoretically study the dynamic effects of the Greek brain drain on macroeconomic aggregates through a thorough investigation of the labor market characteristics in Greece, such as the skills mismatch, (b) derive policy implications by comparing different tax-spending instruments used for debt consolidation and by evaluating the effectiveness and impact of labor market reforms, and (c) offer policy recommendations for the reversal of brain drain. To this end, endogenous migration decisions will be introduced in a small open economy Dynamic Stochastic General Equilibrium model with search and matching frictions and two sectors (tradable and non-tradable), in which the government implements fiscal consolidation through spending cuts or tax hikes. A key ingredient of the setup is the capital-skill complementarity in the production process and the households’ heterogeneity in terms of skills and access to financial markets.

Project originality

The research is original and innovative from several perspectives. First, the project will provide an overview of skills mismatch and brain drain in Greece compared to other southern European countries. Second, the research will contribute to the migration literature by shedding light on the macroeconomic effects for the sending economies through the theoretical lens of a small open economy DSGE model with endogenous migration decisions and an explicit modelling of skills. The implications of high-skilled emigration from developed countries, like in the recent case of Europe's peripheral countries, remains a topic little explored. Third, this project will contribute to the fiscal consolidation literature by considering the implications of the brain drain channel, left unnoticed so far. In this vein, the size of the fiscal multiplier, used to analyze the effects of fiscal policy on GDP, will depend on whether the labor force is mobile or not, and if this mainly concerns the low or high-skilled workers. Fourth, offering policy recommendations on the comparison of a rich set of fiscal consolidation instruments and labor market reforms in the presence of brain drain will be of key importance for policy makers. In all these aspects, the research project will offer valuable new insights about the complex relationship between skills mismatch, fiscal consolidation and brain drain, as well as a theoretical understanding of the key mechanisms at play.

Expected results & Research Project Impact

After ten years of a severe economic crisis, one of the most prolonged debates in Greece is about the persistent brain drain. The scientific contribution of the project lies in the study of the implications of brain drain for macroeconomic aggregates. The research will allow an in-depth examination of the critical factors determining the dimensions of the human capital flight over the recent years. The policy implications of the project are therefore timely and important. The policymaking agenda has the reversal of brain drain as a main avenue through which the country can enter in a path of sustainable growth. Thus, examining the factors behind brain drain will yield valuable insights for policymakers. A pivotal aspect of the research is the evaluation of the impact of recent labor market reforms and fiscal consolidation policies in the presence of the skilled emigration. The study of the implications of the brain drain from a solid macroeconomic standpoint will provide the broad social science academics and the policymakers' community with a better understanding of the phenomenon of human capital flight and its effects on key aggregate macroeconomic variables and will help re-focus the interest of the discipline on the important role of skilled labor. Therefore, the project will provide new insights and policy recommendations to both ends of the spectrum (researchers and policymakers).

The importance of this funding

The impact on my career development is important in many dimensions. First, the project offers the opportunity to lead a research group as an established independent scholar. It also offers an efficient time frame and resources to pursue my research agenda. The research articles that will be produced will be submitted to high-impact international journals. Moreover, the project has the potential of generating new questions on the macroeconomic effects of migration and is therefore likely to spawn further projects beyond the period of this project. This possibility will greatly contribute to the development of a research agenda for the following 3-5 years. Second, the project will offer a great opportunity to develop research project management skills and to advance networking and dissemination skills, both in the academic sphere and with policymakers. These will be valuable assets for my future application for European funding (ERC Consolidator grant).



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