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**BRAIN DRAIN FROM THE PERSPECTIVE OF INSTITUTIONAL  
ECONOMICS**

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## DECLARATION

I hereby declare that this master's thesis titled as "Brain Drain from The Perspective of Institutional Economics" has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all materials benefited in this thesis consist of the mentioned resources in the reference list. I verify all these with my honour.

**Date**

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**Özlem Birgül SÜZEN**

**ABSTRACT**  
**Master's Thesis**  
**Brain Drain from The Perspective of Institutional Economics**  
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**Graduate School of Social Sciences**  
**Department of Economics**  
**Economics Program**

This study aims to examine the factors that may cause brain drain from the perspective of institutional economics. The causes of brain drain are explained from the perspective of the home and host country, through the push and pull factors. While explaining the push and pull factors, formal and informal institutions are taken as basis. While doing this, two traditions of institutional economics were used. Formal institutions were explained through the new institutional economics; Informal institutions were explained based on old institutional economics. As a result of the study, it has been seen that institutions have a direct impact on the brain drain decisions of highly skilled people. This study proves that people migrate not only for money or better career conditions but also for the betterment of many formal and informal institutions.

**Keywords:** Old Institutional Economics, New Institutional Economics, Formal Institutions, Informal Institutions, Brain Drain, Human Capital, Economic Development.

**ÖZET**  
**Yüksek Lisans Tezi**  
**Kurumsal İktisat Perspektifinden Beyin Göçü**  
**Özlem Birgül SÜZEN**

**Dokuz Eylül Üniversitesi**  
**Sosyal Bilimler Enstitüsü**  
**İngilizce İktisat Anabilim Dalı**  
**İngilizce İktisat Programı**

Bu çalışmanın amacı beyin göçüne sebep olabilecek faktörlerin kurumsal iktisat perspektifinden incelenmesidir. Beyin göçü 'nün sebepleri orijinal ülke ve ev sahibi ülke üzerinden, itici ve çekici faktörler aracılığıyla açıklanmıştır. İtici ve çekici faktörleri açıklarken formel ve enformel kurumlar temel alınmıştır. Bunu yaparken kurumsal iktisatın iki geleneğinden yararlanılmıştır. Formel kurumlar, yeni kurumsal iktisat düşüncesi üzerinden; enformel kurumlar ise eski kurumsal iktisat düşüncesi üzerinden açıklanmıştır. Çalışmanın sonucunda görülmüştür ki, kurumlar yüksek yetenekli kişilerin beyin göçü kararları üzerinde doğrudan etkiye sahiptir. Bu çalışma insanların sadece para veya daha iyi kariyer koşulları için değil; formel ve enformel birçok kurumsal iyileşme için göç ettiklerinin kanıtı niteliğindedir.

**Anahtar Kelimeler:** Eski Kurumsal İktisat, Yeni Kurumsal İktisat, Formel Kurumlar, Enformel Kurumlar, Beyin Göçü, İnsan Sermayesi, Ekonomik Kalkınma.

# **BRAIN DRAIN FROM THE PERSPECTIVE OF INSTITUTIONAL ECONOMICS**

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## **ABBREVIATIONS**

|               |                                                    |
|---------------|----------------------------------------------------|
| <b>WESP</b>   | World Economic Situation and Prospects             |
| <b>AEA</b>    | American Economic Association                      |
| <b>LMIC</b>   | Low- and Middle-Income Countries                   |
| <b>LDCs</b>   | Least Developed Countries                          |
| <b>UNDP</b>   | United Nations Development Programme               |
| <b>IMF</b>    | International Monetary Fund                        |
| <b>OIE</b>    | Old Institutional Economics                        |
| <b>NIE</b>    | New Institutional Economics                        |
| <b>HDI</b>    | Human Development Index                            |
| <b>UNCTAD</b> | United Nations Conference on Trade and Development |

## INTRODUCTION

Brain drain is a critical socio-economic concept that tries to find a place in the literature after the 1960s. Today, it is still on the agenda of many countries. It should also be the focal point for both the home and host countries in many respects. In this study, the question of "Are formal and informal institutions affect brain drain?" will be emphasized. In other words, what we want to explain is reasons for brain drain. These reasons will be given to the reader from an institutional point of view. It is aimed to give the reader what kind of influence institutions can have on brain drain. Theoretically, we will try to explain the brain drain in-depth with institutional economics and institution definitions.

First of all, it will be useful to mention a few points in the literature. Brain drain is a significant issue and should be evaluated considering the specific structure of countries. Another issue is that the brain drain has a positive or negative effect on the home and host country. Finally, the common belief as the causes of brain drain is as follows; people migrate to get better working and living conditions and to earn more money. In summary, this is what exists in the literature about this subject of brain drain. Now it is time to talk about some of the other issues that we have not encountered in the literature. We can define institutions that make the world we live in a better place through rules and norms. So, what type of effect do these institutions have on highly skilled people? Do institutions affect brain drain? It is precisely this question that sheds light on our research. What effect make formal and informal institutions have on brain drain?

The main aim of the occurrence of this thesis is that the causes of brain drain are not addressed under any economic school, although it has an extensive coverage in the literature. In other words, the reasons for brain drain have not been examined before from an institutional point of view. The purpose of this thesis is to add an institutional perspective to the reasons existing in the literature. Before starting the research, we set out with the idea that institutions have a push or pull effect on brain drain. In this study, we will show that highly skilled people do not always migrate for money. Likewise, people may migrate not only because of the dissatisfaction in the home country but also because of the attraction in the host country; that is why brain

drain is a fascinating topic. Moreover, our motivation in this study reaches its peak at this point. Why do highly skilled people migrate? What are the institutional structures that bring people to this point? People can only migrate for more money, just personal ambitions, dreams of the future, ideals, desire to make their families comfortable, or, more simply, by simplicity. It is precisely for this reason that brain drain will be examined not only based on formal institutions, but also under informal institutions. As a general misconception, the leading causes of brain drain are expressed by people and policymakers as the low salaries in the original country and the lack of career opportunities. In this research, the factors that cause a brain drain will be examined in detail under the title of push and pull factors. In doing so, the host countries will be associated with pull factors. On the other hand, the home countries will be associated with the push factors.

In order to establish a regular structure, in the first chapter, the brain drain, which is the main subject of this research, will be mentioned. Chapter one will consist of three sections that critically explain brain drain. Some questions will be asked in this section; For example, what is brain migration, how was it defined at first, who migrated? What kind of countries are preferred by the potential migrants for immigration in general? When discussing brain drain, the reasons will be explained superficially, and the results will be discussed in depth. The results will explain in detail from the point of home and host countries separately. These results, called curse and blessing in the literature, will be imparted to the reader objectively. Another critical point is to present the relationship between human capital and economic development separately with brain drain. In the final section, consequences on home and host country will be explained. The primary theoretical attention of this chapter is to explain brain drain from every side. The fundamental point of this research is twofold: firstly, we identify brain drain in the economics literature, and secondly, we focus on the results from home and host country perspectives.

Chapter two will try to understand and explain the structure of institutional economics over time. The main goal of this chapter is to find answers to the concept of institutional economics in line with the old and new institutional economics concepts. The primary purpose of chapter two is to prepare the readers for chapter three with the definition of institutions and be able to answer the following questions.

Why institutions matter, why institutions are essential for economic development, and why we should care about them. Chapter two will try to explain how founders define institutions and how institutions can affect economic development. During sections one and two, we will criticize the institutional economic philosophy, representatives, and point of view in general to explain the starting point. In the last section, definitions of institutions, separation between organizations and institutions, why institutions matter will be explained. To define institutions, we should briefly mention the most known pioneers and their popular explanations about institutions. Automatically, institutions, institutional change, and economic development will become visible.

The last chapter is the chapter where all this work is breathing. It is the chapter where we will achieve our main goal after the second part, where the institutions are explained from the old and new institutional economics perspectives. The causes of brain migration, which we would like to explain separately through formal and informal structures, will meet the reader in this section. Examining the institutions of the original and host countries under the title of push and pull factors is the main reason for the emergence of this study. Chapter three is the section that will be explained why it would not be right to accept the institution as a monotype. Because human behavior is a complex structure that cannot be explained only by the 'impulse of interest.' At this point, institutions will be examined under the title of push and pull factors as formal and informal institutions. Then we will harmonize them with human's specific emotions. These are fear, anxiety, hope, and trust. We will match formal institutions with fear and trust. On the other hand, we will match informal institutions with anxiety and hope.

## **CHAPTER ONE**

### **BRAIN DRAIN, EVIDENCE AND LITERATURE**

This chapter mainly focuses on the general and shared understanding of brain drain. Besides, we try to understand the roots of the brain drain in the literature by looking at different sources from different principles. This chapter illustrates the real reasons and consequences of the brain drain discussions and notions. On the basis, this research aims to analyze the brain drain; it is a curse or bless for home and host countries. Another critical point is to present the relationship between human capital and economic development separately with brain drain. The fundamental theoretical aim of this chapter is to explain brain drain from every side. The fundamental theoretical question of this chapter is brain drain solid loss or total gain for the home and host countries.

Chapter one will consist of three sections that critically explain brain drain issue, what is brain drain, discussion from perspectives of human capital and economic development, and finally, consequences on home and host country. In the first section, we focus on what brain drain is and why high-skilled laborers are so crucial for every country. In the home and host country section, we investigate that question 'why some countries accepted as developed or underdeveloped. Besides, we interpret the African and Northern hemispheres according to reasons for their development differences. Also, home and host countries will be discussed interactively from two perspectives. The first one is the development, and the second one is human capital. During the development section, we make a differentiation between economic growth and development. Also, we explain the economic development with its features. In the human capital section, we interpret the brain drain with a human capital concept. We divide the human capital concept into three main phases, formation, accumulation, and the total control of brain drain. In the final section, we give the results of the brain drain issue from home and host country perspective. Is a solid loss or a total gain for the countries, especially home countries?

The central theme of this research is twofold, firstly we detect brain drain in the economics literature, and secondly, we focus on the results from home and host country perspective. Regarding these objectives, this chapter deals with introducing

and explaining the brain drain from every aspect. Another point in this chapter is to illustrate possible reasons and results of high skilled migration and define the developmental differences between LDCs and well-developed North countries. The main aim of this chapter is to prepare the readers for chapter three.

## **1.1 DEFINITIONS, GENERAL JUDGEMENT**

Beginning from the Second World War, socio-economic development discussion has particularly focused on the following question: Why are some countries extremely poor while some others are wealthy? As a contribution to this discussion, the concept of brain drain, which was noticed in the 1960s and attracted the attention of political and social scientists (Glavan, 2008: 720), has been examined from various sides. Today, the notion is used to explain the departure of well-educated new graduates and professionals from developing countries to developed ones. Recently the new concept of brain drain gains a much more powerful dimension (Firoz, 2016; 55). As Mountford and Rapoport (2011: 4) argue that "throughout the 1990s the growth rate of international skilled migration has been nearly tripling that of unskilled migration, and most of that increase was due to skilled migration from developing to developed countries".

The term brain drain, in other words, human capital flight, has attracted attention in recent years. Brain drain has been defined as the departure of professional power who has received specialized training. This departure means the emigration of high-skilled labor from developing to developed countries. As is stated by Barclay (2002: 42), this is "the departure for other countries of university-trained people and others who have received costly and specialized training." The professionals, who have technical expertise, entrepreneurial and managerial skills, generally tend to migrate developed countries. Despite its many definitions, human capital flight includes not only the flight of well-educated and highly skilled people but also the loss of highly skilled people because of the death, socio-economic displacement, or critical disability directly affected by civil wars or different kinds of systemic violence (Barclay, 2002: 45). The term brain drain should be defined according to the structure and position of

the country's institutions. However, during this research, we accept the brain drain as the migration of highly skilled people to developed countries.

Dei and Asgharzadeh (2002: 31) state that brain drain is “the case within national borders that the educated, skilled, and specialist segment of the population in the less-developed rural areas tends to be pulled to the urban centers.” Thus, initially, we can say that the brain drain occurs from poorer and usually rural areas to relatively rich urban areas within the same country. Later or sometimes, at the same time, the same movement is observed between different countries. In other words, emigration reached global borders from national borders. Migration has existed since the beginning of human history. The increasing tendency of vast numbers of qualified professionals moving from low-income countries to the highly developed states has got considerable attention since it causes a severe depletion of the labor force from the home countries (Firoz, 2016: 55).

According to Dei and Asgharzadeh (2002: 31), "the current brain drain problem is directly related to colonialism, slavery, unequal North-South relationships, exploitative functioning of global capitalism, and environmental and ecological disasters." In an article analyzing the concept of brain drain within the context of internationalization of institutions of higher learning, Firoz (2016; 55) states that "assessing the determinants for the emigration of skilled workers requires better knowledge of how globalization has impacted production and dissemination of knowledge as well as of the educational and socio-economic structure of the sending country." He (2016: 56- 61) adds that “the impact of globalization as an economic phenomenon crossed traditional borders and affects societies, cultures and their education systems and that “the internationalization of higher education needs to be studied as a necessary condition of the globalizing process which has impacted nations and institutions the world over.”

Brain drain attracts attention recently for several reasons, such as the widening of the gap between the developed and developing world and rapid changes in information technologies (Dei and Asgharzadeh, 2002). However, we need to know more about how globalization affects the socio-economic structure and how the distribution of knowledge affects migrant choices. There are also many reasons why highly skilled workers try to migrate or be forced to migrate. A part of the reasons

consists of home countries' institutional deficiencies, and the other part of the reasons arises with the host countries' attractive policies. These reasons will be explained in detail in the final chapter. The most mentioned institutional deficiencies can be sorted as the lack of resources or suitable jobs in the least developed or rural territories (Dei and Asgharzadeh, 2002: 32). Local high skilled workers want to have better working conditions, to reach the opportunities needed for their professional development, and to reach the level of well-being they can enjoy in developed countries. Also, factors such as civil wars or similar internal conflicts aggravate brain drain (Barclay, 2002). Therefore, many skilled laborers may want to go to economically developed neighboring countries if they cannot find a substantial working area for their skills and qualifications. In short, high skilled labor tends to move into highly developed countries to escape from poverty, political instability, and lack of institutional facilities in the home country. Their dreams are to achieve prosperity and reach the opportunities which are available in the developed economies (Dei and Asgharzadeh, 2002: 32). These reasons are directly related to home-countries' institutional deficiencies.

Apart from these, another reason for migration is the developed countries' tempting policies. These policies are directly related to the strategies of developed countries. Developed countries create better policies to pull even more skilled workers in their country (Okoye, 2016: 74). Skilled workers are attracted by comparatively higher wages and better working conditions. Developed countries have political stability, fast flow of information, and new communication technology. These attractive features cause the migration of a vast number of professional groups to promising lands (Firoz, 2016: 55). As a result of powerful attractions associated with differentials in living conditions, opportunities for professional improvement, and the existence of an atmosphere that is helpful to peace and security, migrants leave home country for highly developed countries or better countries (Sako, 2002: 25).

Well-educated migrants are not only crucial for the country's future but they are also potential key actors. Developed countries always desire to have high-skilled migrants in their countries. These qualified individuals also cause heated rivalry between developed states. This rivalry mostly occurs within the well-developed countries which have excellent education systems that can support those high-skilled migrants more profoundly. Countries like Norway, Sweden, and the US have created

a well-organized education system and have provided enormous opportunities for students, academicians, engineers who were living in underdeveloped countries. Thanks to these policies and because of lack of opportunity in underdeveloped and developing countries, developed countries have successfully taken advantage of high-skilled workers through brain drain. Finally, the brain drain can be a reason and result at the same time, depending on the sending country's socioeconomic and political conditions.

## **1.2 HOME AND HOST COUNTRY PERSPECTIVE**

In literature, the home country represents the sending country and the host country represents the receiving country. In addition to that, there is one more important assumption, the Africa hemisphere is accepted as underdeveloped for centuries. On the contrary, Northern countries are accepted as developed. Many academicians criticized the development phenomenon, and they asked why northern countries are accepted as highly developed or why technological movements and statistical development are so important? Economists have long believed in the importance of human capital in economic growth and development process (Hakooma and Seshamani, 2017: 71). Because of that, home and host countries will be discussed interactively from two perspectives. The first one is human capital, and the second one is economic development.

To explain this section better, it is vital to make a country classification. In this part of the discussion, the concepts of undeveloped and developing countries need to be clarified (United Nations, 2019: 167). World Economic Situation and Prospects (WESP) report classifies whole countries into one of three broad sections: developed economies, economies in transition and developing economies (United Nations, 2019: 167). In this research, underdeveloped and developing countries will be used interchangeably. The term "undeveloped country" is hardly mentioned in any of the research. Because "underdeveloped country" evokes that the country has no modern industry or new services that provide transport, health care." There are underdeveloped countries, and they have very low development indexes. Many of them live in miserable conditions, including lack of access to training/education and health care.

These nations generally experience high population growth, further contributing to their extensive poverty (UNCTAD, 2019). On the other hand, developing countries mean those with less advanced industries. Considering the determinants like the standard of living, GDP, and per capita income, emerging states have the capacity for high growth and safety. Emerging states can also represent the low- and middle-income countries (LMIC). Least developed countries (LDCs), and newly industrialized countries are terms that are frequently used alternatively for an underdeveloped country (UNCTAD, 2019). LDCs are confronted with brain drain and associated with minimum industrial development and lower human development index (HDI) when compared to developed countries. As stated by Dei and Asgharzadeh (2002: 31), the brain drain is the movement of human experience, practice, and ability from one country to another. Mostly this transference happens from the underdeveloped countries to the developing and highly developed countries, for instance, from South to North.

According to Dei and Asgharzadeh (2002: 31), the brain drain is a serious problem plaguing Southern countries on an unprecedented scale. While discussing Africa's adventure of poverty and underdevelopment, Dei and Asgharzadeh (2002: 32) establish a relationship between the state of inequality and the time when Africans were colonized. Three hundred years ago, millions of Africans, among them merchants, farmers, artisans, and intellectuals were forced to migrate from their countries and sold to the Americans as slaves. The colonial order obliterated the natural loyalty from the highly skilled to their local languages, experiences, and knowledge bases and disrupted their commitment to society by imposing foreign languages on African peoples. This colonialist state destroyed the language bridge between the unskilled and skilled people by imposing foreign languages in education. In this way, less trained people become inadequate to continue their knowledge, and they had to start everything from the beginning without the transfer of knowledge and skills (Dei and Asgharzadeh, 2002: 32). It is generally assumed that there is a migration of trained professional people from the ancient colonial regions to the old imperial European nations and from Europe or other countries to North America and especially the United States (Firoz, 2016: 59). Among many, four factors that led directly to the migration of Africa's most high-skilled laborers to the well-developed North countries deserve

attention. These factors can be listed as inequality and the gap between North and South, the colonial lifestyle of Africa, socioeconomic factors, and political and/or religious factors. The most crucial reason for Africa's brain drain is an unequal level of development between north and south and lack of or insufficient technological improvements in African territory. This means that the process of movements from the least developed and developing to the highly developed regions can be discussed in internal, regional, and global settings (Dei and Asgharzadeh, 2002: 31).

The colonial myth tells us that Western culture, materialism, and civilization are superior to LDCs' (United Nations, 2019: 149). Strategically in many countries, English has become an essential requirement for progress and development in the knowledge-based economy (Firoz, 2016: 59). "Five leading English-speaking countries alone; the United States, the United Kingdom, Australia, New Zealand, and Canada take more than half of all international students in the OECD area" (International Organization for Migration, 2008: 106). Because of above mentioned "superiority," LDCs' high skilled workers are inclined to have the Western way of life and material goods; and this situation pushes high skilled workers to imitate Westerners, and they endeavor to live in Western countries, escalating the levels of migration (Dei and Asgharzadeh, 2002: 32). Curbing freedom of expression, denial of fundamental rights and liberties force high-skilled people to immigrate. On the other hand, Dei and Asgharzadeh (2002: 32) state that high skilled emigration from Africa occurs in two principal stages. In the first stage, highly skilled workers and students in Africa migrated abroad for different purposes. In this stage, we count the human capital flight of scientists, engineers, physicians, health workers, entrepreneurs, and others. In the second stage, talented African students who graduate from overseas universities decide to stay in the host country. They mostly find well-paid jobs, build a nest, and become stable homeowners and compatriot. So, the primary problem for African governments is initially to build favorable conditions for well-educated African professionals and students to stay home and work for their home country. The next difficulty is to convince the highly educated students to return to Africa.

What they say for African countries can be easily generalized for all home countries all over the developing world. Even if there is a contract between students studying abroad and their governments and/or private institutions as scholarship

providers, most of the well-educated students prefer working in host countries if the opportunity exists, and they only return for fulfilling the agreement signed with their home institution to work in more favorable conditions in host countries (Firoz, 2016: 60). However, giving examples only from the African continent is not appropriate for the general purpose of this study. For instance, Asian immigrants should also be mentioned in this study. For example, Pakistan is an excellent example of lower-middle-income countries. Also, Firoz (2016) is mentioned that Pakistan is a very active country about brain drain. Firoz (2016: 57-60) argues that many of the students who receive education in Western universities choose to live in those countries and even acquire the nationalities of host countries. The colonial legacy of Pakistan somehow facilitates this type of brain drain.

Brain drain is often considered to be from undeveloped countries to developing or developed countries. Contrary to what is believed, brain drain problems even occur in highly developed countries as well, and there are complaints about the adverse effects of the brain drain from Canada to the USA. In this example, Canada is not a loser but a winner because the number of university graduates entering Canada is far higher than the number of Canadian graduates leaving for the United States. (Dei and Asgharzadeh, 2002: 31). According to Glavan (2008: 720), the importance of intelligence migration will not diminish in the future. Many developed countries have to struggle with the problem of aging and the shortage of skilled labor in specific industries, leading them to import educated foreigners. The eastward expansion of the EU, for example, can provide eastern skilled labor with lucrative positions in the west. Less attractive working areas or relatively bad working conditions can be bearable for migrants increasing their appeal. As is stated by Dei and Asgharzadeh (2002: 32), "the highly industrialized and commercialized North attracts the highly talented from the South, including Africa, through the forces of transnational corporations, international financial centers, and globalization."

In the following sections, the brain drain will be analyzed within two fields, since human capital flight and economic development are interrelated with each other. Besides, these two different points of view are directly connected with the many dynamics, so; they should be examined under two subfields. Firstly, the effect of brain drain on development will be examined. Then, the human capital flight effect will be

analyzed through the home and host country perspectives. Barclay (2002: 42) states that “according to endogenous growth theories, human capital is a major determinant of economic growth and development. Human capital refers to the educational qualifications, skills, and experience that individuals possess.” Glavan (2008: 734) explains these two interrelated negative effects of brain drain.

On the one hand, the home countries, which are generally defined as underdeveloped or developing countries, lose a highly educated workforce and therefore are deprived of one of the instruments of future economic growth. Because it eliminates the qualified and strong sides of the countries, namely the trained workforce, on the other hand, these countries lose a valuable portion of public funds invested during the human capital formation because of migration (Glavan, 2008: 734).

### **1.2.1 From the Development Perspective**

Economic development concentrates on both the measurable and nonquantifiable growth of the economy. Development can be measured with different features of countries. Also, economic development can help create efficient facilities. Such as wealth, health, education, security, and right to life. Dei and Asgharzadeh (2002: 34) are expressed their opinion on development as follows; “Development must be shifted primarily toward addressing the needs, aspirations, and concerns of local peoples rather than emulating Western models or blindly following the failed structural adjustment programs of the International Monetary Fund (IMF) and World Bank.”

Economic development needs various conditions and requirements (Todaro and Smith, 2003: 91). It also focused on various factors such as improved hygiene systems, safe drinking water, the spread of primary education to improve literacy rate, medical facilities, elimination of poverty, advanced transportation systems, and availability of work opportunities. High sufficient living standards is the primary symbol of high-level economic development. Economic development can be measured by the HDI, which recognizes the literacy rates, life expectancy, which affect productivity and economic growth. According to Human Development Reports of

UNDP, HDI has three dimensions; a long and healthy life, being trained/educated, and an adequate standard of living.

For many years the traditional wisdom equated development almost exclusively with the national output growth (Todaro and Smith, 2003: 78). However, it could be better to explain economic growth before making a comparison between economic development and growth. Economic growth requires three significant elements, capital, labor, and technology. These three factors of economic growth have a top importance in any society. Capital accumulation incorporates total new investments in land and physical capital. Labor means population and labor force, generally, called human capital. The last one is technological progress (Todaro and Smith, 2003: 78). Barclay (2002: 42) states that;

*Economic growth is occurred by the accumulation of knowledge-based factors of production, such as human capital, learning by doing, research and development, and innovation. The key theoretical argument is that these knowledge-based factors of production are endogenously determined by private and public sector choices in an economic system, rather than being exogenously available to the system, as postulated in conventional neoclassical growth models.*

When we look at these three important variables, if a country has a strong technological infrastructure, it can use it for permanent development in the future. If the country has physical capital, it can be classified as either permanent or temporary. However, when we look at human capital, both its formation and accumulation are principally under the control of the governments. Providing a qualified workforce and employing these people in the country can be permanent with effective policies. These three variables are closely related to each other. Without physical capital, there is no human capital, and also without human capital, there is no physical capital. To explain this triple relationship, Romer (as cited in Glavan, 2008: 724) gives an example of economic growth and technology by using a cooking metaphor. Economic growth happens whenever somebody uses resources and reconstitute them in more valuable alternatives. Romer uses kitchen example the production in an economy. To create critical final goods, the chef has to add economic components according to a recipe. The supply of ingredients can limit the cooking. If economic growth could be performed just by doing the identical kind of cooking, eventually our raw materials can finish. Throughout human history, we saw that economic growth grow apace with more useful recipes, not just from more cooking. New methods usually provide less

unpleasant side outcomes and create economic profit per unit of raw material (Romer as cited in Glavan, 2008: 724). On the other hand, Glavan's (2008: 722) ideas about physical capital, human capital, and technological developments are different from general perception in the literature. He emphasizes, for example, that the lack of physical capital can occur through trade relations, independent of human capital. To defend this argument, he gives socialist economies, centrally planned economies, and other developing countries' economies as examples. He states that well-educated people in such economies cannot be effectively combined into the labor market because they have no physical capital to work with. In other words, even if a communist or socialist or underdeveloped country prevents brain drain, it will not be able to employ the qualified labor force -human capital- effectively. In this case, it will not contribute to growth. Using Glavan's own words

*It is not a coincidence that brain drain has been associated with the emigration flows originating in socialist economies. Although this phenomenon supposedly represented an economic malady, it is difficult to argue that socialist countries' level of development would have been higher if this flight of human capital was nonexistent. In a centrally planned economy, as well as in any other poor country, well-trained specialists cannot be effectively integrated in the labor market because they have no capital to work with (Glavan, 2008: 722).*

The sustained economic growth of a country has a positive effect on the national income and employment level, which further results in higher living standards. Recent developments in electronic and information technologies may have detrimental effects on the contemporary world economic structure. These developments result in differences between South and North not only in technical areas but also in political stability, education, and all managerial areas. The brain drain is a major problem for Southern countries on an unprecedented scale. With the words of Dei and Asgharzadeh (2002: 31)

*The phenomenon known as the brain drain is a problem of great magnitude plaguing Southern countries on an unprecedented scale. Although not a recent phenomenon, it has gained considerable momentum and speed, particularly in recent years. Why the brain drain has grown in scale may be attributed to recent developments in modern electronic and information technology, the widening gap between North and South, and the spread of corporate globalization, as well as increasing political instability, civil wars, and social and religious strife in many Southern and African countries.*

Referring to this situation, Glavan (2008: 729) gives an example of Philip Emeagwali (2001) who is a well-educated Nigerian scientist,

*African universities are training one-third of their graduates for export to the developed nations. We are operating one-third of African universities to satisfy the manpower needs of Great Britain and the United States. The African education budget is nothing but a supplement to the American education budget. In essence, Africa is giving developmental assistance to the wealthier western nations, which makes the rich nations richer and the poor nations poorer.*

Furthermore, this situation is also the same for other developing countries. Many developing countries are the suppliers of high-skilled workers for the Northern hemisphere.

According to Dei and Asgharzadeh (2002: 34), alliances and partnerships must be formed among several non-governmental organizations in the North and South to eliminate the reasons that create and support the brain drain. In this partnership, they are stressed that the developed countries are not innocent and do not have a "neutral" role, as they would want to believe. On the contrary, from the past to today, Western countries have benefited from colonialism, slavery, and imperialism. However, according to Dei and Asgharzadeh (2002: 34), to protect the least developed countries, the North should help.

Brain drain affects differently home and hosts countries, according to their development levels. There is an interaction between development and brain drain that can show itself as a source of vicious or virtuous circles. The brain drain has been viewed as a severe obstacle to the development of LDCs for a long time (Docquier, 2014: 2). According to Glavan (2008: 721), high skilled workers are prone to immigrate away from areas scarce in such skills to areas where human capital is already abundant. Eventually, the home country is suffering further from a lack of human capital. One must keep in mind that human capital and physical capital are complements. A natural result of human capital flight is a slowing down of physical capital creation.

*Consequently, productivity will decline in the origin countries, creating further incentives for skilled emigration to developed regions. A vicious cycle can result, and this might explain why less developed nations remain poor. To make matters even worse, physical capital goes hand in hand with human capital. (Glavan: 2008, 721)*

Making things worse, finding an easy and effective solution to the brain drain problem is hard. As a recommendation for that, "the overall effect on productivity depends on the degree of complementarity and the shares of high- and low-skilled workers in the labor force" (Choy and Glass, 2002: 66).

According to Docquier (2014: 5), brain drain can have both beneficial and harmful impacts on long-term development. To put it differently, the result of brain drain on a home country's prosperity and development can be harmful or beneficial. It must be known that developing countries' losses will always be more significant than the gains. However, this depends on countries' specific features such as level and form of migration, level of development, population size, language, and geographic location (Docquier, 2014: 1). Brain drain is usually perceived as a harmful phenomenon to the growth potential of the home country, and it affects the welfare of home country citizens negatively. It is even more detrimental for the LDCs since "with increasing development, positive selection in emigration, and brain drain rates fall" (Docquier, 2014: 4). However, harmful and beneficial effects are directly connected with the many dynamics so, these views should be examined in detail.

On the other hand, according to Mountford and Rapoport (2011: 4-5), both receiving and sending countries benefit from brain drain. However, if both countries benefit, the more advanced economy benefits more than other countries, increasing inequality in the world distribution of income. Skilled emigration trends may, in the long run, may increase the inequality in the world distribution of income as nearly poor countries grow huge in terms of population. "In the short run, but it is possible for world inequality to fall due to rises in GDP per capita in large developing economies with sufficiently low skilled migration rates" (Mountford and Rapoport, 2011: 4).

### **1.2.2 From the Human Capital Perspective**

According to the Westphalen (as cited in Szwabe, 2014: 92), human capital is defined as: "The knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances." In general terms, brain drain refers to the international flow of resources in the form of human capital (Glavan, 2008). Explaining the effects of this brain drain through the concept of human capital would be more appropriate for this study's aim. Human capital is the phrase that is usually used by economists to identify education, health, and other useful knowledge that can increase productivity. It used to emphasize the developed skills, knowledge, and

capabilities of all the people in the community. The limits of human capital are not precisely defined.

The categorization of occupational groups subject to human capital has divided literature into two. One part of researchers defined human capital as the professionals who have the technical expertise and entrepreneurial and managerial skills. Another group of researchers argue that there are factors that determine human capital, such as skills and qualifications, social communication, emotional intelligence, judgment, personality, creativity. Considering these two thoughts in literature, we can say that human capital is provided not only by persons in the tertiary education and service sector but also people who are working in the primary and secondary sectors such as manufacture and agriculture. However, within years, tertiary education and the service sector has become more generally accepted as human capital by the general public. Glavan (2008) assumes that the general definition is misleading. From his point of view, this concept should address the ideas, technologies, and skills that can be found during a process of learning. In economic terms, it could be defined as the accumulation of knowledge and its efficient investment in the development of the economy (Hakooma and Seshamani, 2017: 72).

After this brief introduction, it will be more reasonable to explain human capital more systematically. This explanation can be grouped under three main arguments: the formation, accumulation, and total control of human capital. The connection between the formation and the accumulation is usually present in the literature. However, most scholars are not familiar with political rhetoric. Moreover, accumulation and formation of human capital is a strategic policy for the structures and capabilities of countries that are adopting those policies. Because of that, to have total control over human capital has a crucial role in every society. Besides, it is hard to succeed in the formation, accumulation, and total control of human capital altogether.

Human capital formation is the process of holding stable and raising the number of persons who have a crucial role in the economic and political development of the home country. According to Docquier and Marfouk (2006), the brain drain level decreases with the home country's human capital formation capacity. Because human capital formation is a kind of investment and personal development that has a crucial

role in productivity, personal skills, educational background, and working experiences became essential issues for human capital formation. The government and society should have assets and/or opportunities to create human capital. Human capital formation requires investment in education, improved health, and workers' training in specialized skills. We can say that the crucial capital stock of a developed country is not its physical capital capacity; it is a well-developed human capital.

Furthermore, the accumulation of human capital means attracting qualified people from different fields. Human capital accumulation is a long-term investment. All investments have certain costs as well as benefits. Human capital accumulation also has prime costs like the cost of workers' time and effort required for the education process, lecturers' time and knowledge, and other subsidiary resources. Similar to any other source, these can be used to produce alternative goods and services (Glavan, 2008: 725). As mentioned before, investment in human capital is just as substantial as investment in factories and machinery (Hannah, 1987: 178). It would be a big mistake to assume that the benefits will outweigh the costs of these investments in a short period. According to Glavan (2008: 719), since they have to deal with problems such as an aging population and shortages of skilled labor, many developed countries invite educated foreigners. About this statement, Mountford and Rapoport (2011: 4) argue that,

*Such migration is likely to affect the world distribution of income both directly, through the mobility of people, and indirectly, as the prospect of migration affects the rate of return to education in both the sending and receiving economies. This migration pattern will therefore affect human capital accumulation and fertility decisions in both the sending and receiving economies.*

Countries' policies may have encouraging or discouraging effects on high skilled migrant choice. For human capital accumulation issues, developed countries establish policies and try to import high skilled workers depending on their population. However, developed countries have minimum difficulty in the human capital formation process thanks to their tangible and intangible resources. Generally, strong European and American public and private institutions offer scholarships to developing countries' students; these students are mostly Indian and Chinese (Rajput, 2002: 3404). Because investing in human capital accumulation creates more profit for developed countries. In a strict sense, it is easier to buy a qualified workforce than trying to create it. The main reason for the developed countries' human capital import

policies is their population structure. Their existing human capital stock is not enough to sustain the country's reputation.

On the other hand, according to Glavan (2008: 731), human capital migration causes a disconnection between the country and its residents. This has substantial adverse effects on the home countries, restricting people from capitalizing on their investment in human capital formation. In other words, with the migration, the home country loses high skilled workers. With his own words (Glavan, 2008: 731), "the problem of human capital migration is a property problem. It arises because the property rights of those involved in the process of human capital formation are not clearly defined. This problem even exists in the private sector." To cope with this property problem, managers and human resource departments try to educate their employees, and to do so; they usually send their employees to training, seminars, and trips abroad to improve themselves. Football clubs provide the best example. Because of that, athletic associations and private organizations in general heavily invest in human capital (Glavan, 2008: 731),

*Their business is to buy players, train them to work in a team with other players and win games. During the process, huge funds are invested in promising players' recruitment, infrastructure development, training, and so on. When errors occur, clubs can easily sell players who are unsuited for the team. Occasionally, bankruptcy occurs, but football clubs are profitable overall, and their functioning illustrates how investment in human capital can be managed successfully.*

Another critical issue that is as vital as the formation and/or accumulation of human capital is to take human capital migration seriously. What is declared here is not related to the prevention of human capital migration? Because preventing immigration is opposed to human rights. It is more helpful to convince people 'not to migrate' instead of restriction because all countries need well-trained human capital. Taking human capital seriously means maintaining existing capital within the borders of the country. Glavan (2008: 723) argues that human capital should address the thoughts, technologies, and abilities that can be discovered or comprehended during a process of learning.

Despite various disagreements about the relationship between current development and human capital, all researchers agreed on the fact that economic development achieved with the progress in production and technological improvements. The primary source of these technological improvements is human

capital. Human power is vital to create a certain amount of capital. If economic developments are outcomes of complex production processes and technology, it can be challenging to succeed without human capital. In the light of this information, in the literature, we see different groups with different views about the importance of human capital for economic development. According to Glavan (2008), there are two groups: the first group claims that human capital directly affects technology and production, and the other group supports that economic progress can not reach an adequate level without human capital. Docquier (2014: 8) argues that human capital accumulation and the pace of development decreases with the increasing brain drain trend. The main argument of those who argue that human capital directly affects technology and production is that states need to keep human capital in their countries (Glavan, 2008: 725). According to Todaro and Smith (2003: 78), human capital is essential for all countries and has a strong correlation with economic growth. While it supports growth in developing countries, it provides dynamism in the population in developed countries. In the literature, many researchers show that human capital is directly related to economic growth. According to Barclay (2002: 46), from the point of sending countries, according to endogenous growth theories, human capital is a significant determinant of economic growth and development. If we believe in the necessity of keeping human capital within the home countries borders, it becomes apparent that the migration of human capital is a loss and that loss has negative consequences. According to Johnson (as cited in Özden and Zovanga, 2017: 360), the term brain drain “is a loaded phrase, involving implicit definitions of economic and social welfare, and implicit assertions about facts. This is because the term of drain conveys a strong implication of serious loss.”

### **1.3 CONSEQUENCES OF BRAIN DRAIN**

The migration of high skilled human capital is essential for both the home and host countries. There are two views in the literature, half of the contributors provided that the brain drain is a solid loss, and the other part argued that human capital flight is a gain to home countries’ development. Docquier (2014: 1) argues that there are pros and cons of the brain drain for the LDCs depending on the characteristics and

policy objectives of these countries. The first idea is that human capital migration has benefits -brain gain- for home countries and its reserve of unskilled workers. This is not an entirely new perspective, but many researchers argue that the brain drain can be a brain gain at the same time (Firoz, 2016; 54). The main argument of the advocates of this idea is that the environment required to create new human capital at the borders of the country can only be achieved by the departure of existing qualified people. According to them, the people who leave the country are doing good for the people who are staying in the country, providing them space to improve themselves. Since as a result of the migration of high skilled workers, unskilled workers take the opportunity to get a higher status.

*A brain drain can also have benefits for home countries. Alongside positive feedback effects from remittances, circular migration, and the participation of high-skilled migrants in business networks, innovation, and transfers of technology, consider the effect of migration prospects on the formation of human capital in home countries. New research suggests that limited high-skilled emigration can be beneficial for growth and development, especially for a limited number of large, middle-income developing countries. But for the vast majority of poor and small developing countries, skilled emigration rates significantly exceed the optimal rate (Docquier 2014: 4)*

To put it differently, migrants save their home country from the expenditures associated with the education, defense of themselves and their families, and health preservation (Glavan, 2008: 722). In addition to this benefit to unskilled labor, the whole home country can benefit from the remittances sent back by émigrés (Firoz, 2016: 59). Gibson and McKenzie (2011: 9) give a notable example of the positive return of human capital flight. In New Guinea, students are dreaming of immigration to HDCs when they are in high school. This dream pushes them to study harder, and they became eager to take lessons such as globalization or organizational behavior. In short, if the demand for immigration increases, they voluntarily invest in human capital formation because of a strong correlation between migration expectations and personal investment. To gain benefit from the brain drain, high skilled students need motivation for graduate education. Docquier (2014: 6) argues that;

*There are two conditions for such a benefit to obtain. First, the level of development in the country should be low enough to generate strong incentives for the more educated to emigrate, but not so low that personal liquidity constraints on investment in education become strongly limiting (in which case the incentive cannot operate). Second, the probability of emigration by high-skilled workers must be sufficiently low.*

In sum, according to Docquier (2014: 1), “brain drain stimulates education, induces remittance flows, reduces international transaction costs, and generates benefits in source countries from both returnees and the diaspora abroad.” Similarly, Okoye (2016) states that “besides increases in the skill premium and education incentives, remittances from migrants provide a channel through which emigration would increase the educational attainment of individuals left behind.” Along the same line, Mountford (1997: 288) argues that brain drain may increase productivity and eliminate inequality in the home economy.

Another thought adopts that brain drain is a solid loss for the home country because skilled workers are vital for development. According to Docquier (2014: 1), the brain drain concept produces more losers than winners in developing countries. We can say that brain drain, directly and indirectly, affect the development of a country. Numerous academicians have made empirical and theoretical investigations on the negative effects of brain drain on development. Barclay (2002) tries to examine brain drain in the context of Liberia’s higher learning institutions from the experience of the University of Liberia. He argues that the brain drain affects the least developed countries and developing ones, stating that this kind of migration creates a gap between countries. The socioeconomic debate between the rich and poor countries can be examined from different sides. However, there has been no other factor (than the brain drain) that has such effects on the human capital of countries for many years. “By depriving developing countries of human capital, one of their scarcest resources, brain drain is usually seen as a drag on economic development” (Docquier, Lohest, and Marfouk, 2007: 193). The migration of professionals and highly skilled workers drive home countries to constant underdevelopment and poverty (Dei and Asgharzadeh, 2002: 33). According to Dei and Asgharzadeh (2002: 33), mostly migration occurs in the middle and upper-middle class. So, the fractional disintegration of the middle and upper-middle class creates a social gap, and this gap causes an unhealthy political, economic, and cultural environment. “Society becomes divided into two camps, the very rich and the very poor; and political checks and balances, which are fruits of the existence of a strong middle class, all but disappear” (Dei and Asgharzadeh, 2002: 33). On the other hand, in case of the loss of existing human capital, it is impossible to replace it for new human capital in a short period and that the state will lose the

motivation to invest in human capital formation for a certain period. Docquier (2014: 1) asserts that over a specific level, brain drain decreases the accumulation of human capital and causes professional deformities, meaning that brain drain also includes,

*...internal loss of such people from the institutions that directly financed their training. Their departure or loss deprives the nation and the institutions concerned of a return on their investment. The investment returns are considered vital to the socio-economic recovery and development process. This process, as several empirical studies suggest, is not a random series of activities. It is affected by myriad intertwining social, political, and economic variables (Barclay, 2002: 42).*

Also, the public and private institutions have concerns about their investment returns. Especially for the private sector, making a profit is an important topic; on the other hand, the state's priorities are mostly about doing something perfunctorily. At some point, such institutions become unable to invest in the accumulation of human capital in line with their concerns because of the risk of making zero gains from investment (Barclay, 2002: 42). The return of the investments as a profit is a very complex and long-term process. It is influenced by numerous interconnected, social, political, and economic variables. If the government fails to profit from the institutions that invest in education or provide direct education services, public institutions become inefficient in the accumulation of human capital (Barclay, 2002: 42). In this case, the state may withdraw from education, which is the essential supplier of human capital. However, this withdrawal situation depends on many factors.

On the other hand, Glavan (2008: 719) argues that the negatives of brain drain are exaggerated. According to him, human capital migration is a massive process of factors allocation. When we look at the developing home-countries, mostly we see that qualified labor cannot be appropriately employed. So, they are returning it into a redundant asset because they have no physical capital to work with. To put it differently, the migration of top professionals, students, and scientists have no destructive impact on the home-country because that part of the human capital cannot efficiently work in the economy of those underdeveloped countries. That explains the migration of professionals who seem to 'not want to work in their own countries. Although Glavan (2008: 720) thinks that the adverse effects of brain drain are exaggerated, he revealed two significant adverse effects that should not be underestimated. "The harmful consequences associated with brain drain originate not in the actual direction of human capital flow but in the institutions and the pattern of

relationships that govern transactions with human capital.” In support of this view, Sako (2002: 28) states that the issue is exaggerated, and he concentrates on the positive aspects of migration, especially on unemployment for the country losing qualified professionals and employment for the country embracing them. There is an argument that if well-educated and highly qualified people stay at home country, their labor quality will diminish due to unemployment or poor working terms. This understanding also points out that remittances can be beneficial for human capital investments, mainly concentrated on highly qualified migrants.

From the host country perspective, brain drain can also be loss and gain. The brain drain of skilled immigration from LDCs increases the growth rate of technology in the receiving country and, this creates new migrations from least developed countries to the highly developed countries as well as increases the incentives for human capital accumulation in the well-developed economies (Mountford and Rapoport, 2011: 5). Furthermore, there will always be qualified people who are necessary for the prosperity of the developed country. The immigration of skilled workers for a well-developed economy will, *ceteris paribus*, reduce the equilibrium wage of skilled workers. On the other hand, brain drain can be a loss to receiving country, and Sako (2002: 28) tries to explain the loss situation with these words,

*Africa's brain drain benefits neither the source nor the recipient country. It is argued that in their efforts to eke out a living outside the continent, African professionals have become victims of debased treatment. Skilled and unskilled job-seeking Africans in the Americas and Europe ultimately find themselves in poorly paid, unskilled jobs that have no relevance to their training or academic achievements. These professionals soon lose their competencies and are ultimately unable to make commensurate contributions to either their own or the host country's development efforts.*

In addition to that, brain drain can be costly for the host country since immigrants push the state to make public expenditures because state buildings such as hospitals, schools, police stations, and prisons are proportionate to the population and require investment in case of demand (Giannoccolo, 2003: 6).

## 1.4 CONCLUSION

Brain drain is a sociological, political, and economic multifaceted phenomenon that affects many countries, and it can be seen as a blessing as well as a curse for both

home and host countries. It depends on the country's cultural characteristics and political interests (Docquier, 2014: 1). This chapter mainly relied on the general understanding of the concept of brain drain and examined it from various sides. Agreements and disagreements about the reasons and results of the brain drain tried to understand from the home and host country perspective. Brain drain affects many countries both positively and negatively. It has been tried to understand the roots of the brain drain in the literature by looking at different hemispheres' different sources.

Another crucial point which this chapter illustrated was to grasp the real effects and consequences of the view of the human capital perspective and the development perspective in Economics literature. From the economic development perspective, although people accept brain drain as a harmful thing, in the literature, there is no consensus about the relationship between brain drain and economic development for the home country. On the other hand, although people accept brain drain as a beneficial thing for the host country, there are no specific results about brain drain as beneficial for economic development in the home country. Because it depends on countries' features, and many things affect countries' economic development. From the human capital perspective, brain drain is considered as crucial human capital formation, accumulation, and entire control process accepted as necessary for both home and host countries.

## **CHAPTER TWO**

### **INSTITUTIONAL AND EVOLUTIONARY APPROACH**

This section tried to understand and explain the structure of institutional economics over time. The real aim of this chapter is to find answers to what is the concept of institutional economics in line with the old and new institutional economics concepts. In doing so, we will try to explain institutional economics and its periods by comparing it with classical and neoclassical economics. Thus, we hope to convey to the reader why and how institutional economics emerged. Chapter two tries to explain how founders define institutions and how institutions can affect economic development. This section aims to examine institutional economics in depth through the way classical and neoclassical economics perceive the world. The most crucial focus of this section and the reason for starting the road is the need to provide a good foundation for the third section.

Chapter two will consist of three sections that critically explain institutional economics thought. The first section focuses on old institutional economics and pioneers of this school of thought. This section will try to explain the starting point and criticism of the institutional economic philosophy, representatives, and point of view in general. In the second section, the reasons that were effective in the period from the loss of the reputation of the old institutional economics to its re-popularity in the late 1980s, and the reasons that prepared the environment for this situation are listed. This section aims to make a differentiation between old institutional economics, neoclassical economics, and new institutional economics. The terms and concepts that new institutional economists bring to the literature will be mentioned—for example, transportation costs, property rights. We explained that the new institutional economics is essential for the economy, people, life, and institutions. With the new institutional economics, we try to explain why the evolutions of individuals or countries differ from each other. In the last section, the following topics will be explained; definitions of institutions, separation between organizations and institutions, why institutions matter. Automatically, institutions, institutional change, and economic development will become visible. To define institutions, we should briefly mention the most known pioneers and their popular explanations about

institutions. In this chapter, some questions will be asked to clarify the relationship between institutions and economic development. Such as what institutions are, how they affect human behavior and limits, how institutions work and why they work the way they do. However, the most critical reason for the occurrence of the last section is how institutions affect economic development, and which institutions are essential for economic performance.

The main aim of this chapter is to prepare the readers for chapter three and also be able to answer the following questions. These questions: what are institutions, why institutions matter, what is institutional development, why institutions are important for economic development, and why we should care about them.

## **2.1 OLD INSTITUTIONAL ECONOMICS**

In the 1890s, classical economics went out of existence. Beginning from that decade, the attacks against the dominant school targeted neoclassical economics. This process began in America with the institutionalist school. This movement of thought was started by Veblen in the 1890s and improved by further generations of institutionalists in the following decades (Screpanti and Zamagni, 2005: 301). “Institutional economics developed as a rather heterodox approach to the study of economic society... As its name implies, institutional economics places at the center of analysis the study of the institutions of the economic system. Institutions are defined variously and broadly within institutional economics” (Medema, Mercuro and Samuels, 1999: 419). There are three different factors of influence that caused the occurrence of institutional economics, as presented by Whalen (as cited in Medema, Mercuro and Samuels, 1999: 419). Firstly, German historical school, established by Wilhelm Roscher and led by Gustav von Schmoller until 1917, aimed at counteracting classical economic understanding in the middle of the 19<sup>th</sup> century. For Furubotn and Richter (2005: 41), “the German historical school might be classified as still another branch of institutional economics.” The historical school underlined the characteristics of economic development, the need to take advantage of positive hypotheses rather than abstract data to propose new economic theories and putting extra care for human-

based institutions. The second influence originated from American pragmatic philosophy.

*Proponents of American pragmatic philosophy recognized an uncertainty inherent in understanding and looked for philosophical methods for establishing the meaning of concepts and beliefs...The pragmatist emphasis on the uncertainty inherent in understanding served to provide an epistemological foundation and a social philosophy upon which to erect the basic tenets of institutional economic thought. (Medema, Mercuro and Samuels, 1999: 420-421)*

The third influence came through Veblen's writings. In those writings, Veblen emphasized "the Darwinian, non-teleological evolutionary nature of economic change" (Medema, Mercuro and Samuels, 1999: 420-421).

Institutional economists desire a road to concrete reality while aiming to highlight the truth and cruciality of people's lives and counteract the traditional economic viewpoint about being disconnected from world-affairs (Caldari, 2010: 617). While classical or traditional economic theory sees the world and economic structure without taking the problems of the current economic system into consideration, institutionalists critically analyze the current situation by stressing the increasing economic gap between advanced and least developed countries (Harriss, Hunter, and Lewis, 1995: 5). On the other hand, original institutional economics is against neoclassical economics because of its policy recommendations, such as low-level government intervention and abstract approach (Moulaert and Mehmood, 2009: 202).

The term institutional economics came into prominence in 1918 with the help of Walton Hamilton (Kaufman, 2017: 294). However, the arguments of institutional economics can be traced back to the 1880s, thanks to the opponents of the scientific form of mainstream economics (Kaufman, 2017: 300). According to Rutherford (1994:1-3), the original institutionalism mostly depends on the works of Thorstein Veblen and John R. Commons. Besides, the original institutional economic thinking is accepted to start with Veblen's 1898 article, 'Why is Economics not an Evolutionary Science?' (Jennings and Waller, 1994: 1005). The old institutionalism focused on the importance of institutions and stressed the need for genuinely evolutionary economics, "but then proceeded in a more and more descriptive direction, leaving any of the core theoretical questions unanswered" (Hodgson, 1993: 13). For Hodgson (1993: 13), the original institutional economics is a refusal of classical liberalism. The assumption that

individuals are not given but shaped by institutions is what separates original institutional economics from mainstream economics (Hodgson, 2000: 325). One of the staunch supporters of original institutionalism, Gunnar Myrdal (as cited in Hodgson, 1993: 13), regarded the original American institutional economics as naive empiricism.

It is debated whether all initiatives of Veblen, Commons, Mitchell, and other American institutionalists have favorable effects over the economic sphere (Hodgson, 1993: 13). These scholars were influential in enlarging the scope of original institutional economics at the beginning of the twenty-first century. Another point is that other scholars such as Geoffrey Hodgson maintained the popularity of original institutional economics and could be seen as the vanguard of revival of this original institutional economics (Chavance, 2009: 71). For Rutherford (2011: 35), Veblen can be considered as the founding father (Screpanti and Zamagni, 2005: 301) and the most prominent scholar of original institutional economics. However, other scholars like Hamilton, Mitchell, and Clark, who created a significant effect on American Economic Association (AEA) in 1918, were also influential in the original, also called old institutional economics.

Inspiring from the works of Veblen and other influential scholars, institutional economics arose as a theory that covers diverse viewpoints in analyzing economic phenomena (Medema, Mercuro and Samuels, 1999: 423). Besides, institutional economics has a reforming character based on institutions and economy, as claimed by prominent writers of old institutional economics (Medema, Mercuro and Samuels, 1999: 423). While Veblen is considered the founding father of institutional economics, the effect of Schmoller's works cannot be ignored (Grimmer-Solem and Romani, 1998: 287). For Schmoller, premises of what will later become institutional economics enhanced the transformation of the 'political economy of social reform' movement between 1870 and 1900 (Grimmer-Solem and Romani, 1998: 287). Besides, with the help of social welfare programs, Schmoller intended to challenge the ideals of socialism (Nau and Steiner, 2002: 1007).

Generally, old institutionalists such as Veblen and others criticize orthodox assumptions (Hodgson, 1993: 3). Veblen has strong comments about orthodox economic thinking, and he refuses to analyze the economic dynamics of society with

the help of static equilibrium analysis. On the other hand, he has no sufficient and systematic approach to the industry, technology, or the macro-economy (Medema, Mercurio and Samuels, 1999: 422). According to Veblen (as cited in Screpanti and Zamagni, 2005: 302), the orthodox doctrine was contaminated by taxonomic, hedonistic, and teleological theoretical attitudes. As observes by Spiegel (as cited in Medama, Mercurio and Samuels, 1999: 421), "Veblen rejected the orthodox hedonistic conception of man as a lightning calculator of pleasures and pain as overly narrow and outmoded."

What makes him famous and unique is his absolute criticism of the mainstream economic methodology of his time, and his reliance on Darwinism in analyzing social phenomena. Veblen's refusal of the assumption regarding ordinary individuals is associated with his attempt to establish evolutionary economics. He accepts instincts, habits, and institutions in economic evolution similar to genes in biology (Hodgson, 1998: 186). Veblen focuses on what he is called an "evolutionary economics" in his writings, which has direct connections with modern work in evolution (Hodgson, 1993: 14). There are three fundamental concepts in Veblen's economic thinking. Instinct, institution, and habit constitute the main framework of Veblen's economic thought (Hodgson, 1993:16). According to Veblen (as cited in Hodgson, 1993: 15), past incidents and current situations transform the future of institutions by changing the usual relationship of individuals and their connections with the past. This situation can be explained by the cognitive instrument of habits and institutions of Veblen's economic thinking, and these institutions are "settled habits" of cognitive thought common to most individuals (Hodgson, 1993:16).

Veblen maintains the idea that the emergence and growth of institutions can be successful with the material environment, technology, and the tendency of human nature. Veblen's thought can be examined as follows,

*Veblen believed that social change implied changes in habits of thought and customs as crystallized in institutions, he insisted on a critical examination of capitalistic institutions - especially what he termed industry and business, along with the economic power they were able to exercise - to better comprehend economic society (Medema, Mercurio and Samuels, 1999: 422).*

According to Hodgson (1993: 13), Veblen could not provide a systematic analysis in his theory-construction process. Contemporary institutionalists prefer to put distance between themselves and Veblen.

John R. Commons is another heterodox economist from the United States (Landreth and Colander, 2002: 356). "Commons having spent the early to mid-part of his career as a labor economist at Wisconsin and joining the ranks of OIE only with *Legal Foundations of Capitalism* (1924)" (Kaufman, 2017: 308). Commons is traditionally described as a latecomer to institutional economics (Rutherford 2011: 31). For Commons (as cited in Redek and Sušjan, 2005: 996), institutions act as a collective body on behalf of individual behavior. Commons (as cited in Kaufman, 2017: 308) also describes the main argument of institutional economics as "collective control of individual transactions'" in "producing, acquiring, and rationing wealth by cooperation, conflict, and rules of the game".

"Until his retirement in 1932, Commons made significant contributions to economics in three broad areas: social reform, graduate education, and labor economics. Perhaps his most significant contribution was the social legislation he was instrumental in formulating. This legislation has changed the structure of the American economy" (Landreth and Colander, 2002: 356). Commons criticized orthodox theory, but he spent working hours in applied fields and social reform. His orthodox economic criticism is paralleled that of Veblen and Mitchell. "His entire approach to social problems rejected the narrow, static, deductive approach of neoclassical theory. Commons tried to bring all the social sciences and law into the analysis" (Landreth and Colander, 2002: 359). For Commons, the main subject of economics is the institutions that shape our society through collective action, which both controls individual action and releases it by setting the individual free (Landreth and Colander, 2002: 359), "from coercion, duress, discrimination, or unfair competition, through restraints placed on other individuals. Furthermore, collective action is more than restraint and liberation of individual action. In essence, it is an expansion of the will of the individual far beyond what he can do by his puny acts" (as cited in Landreth and Colander, 2002: 359).

For Commons (as cited in Furubotn and Richter, 2005: 41), "conflict of interests" is predominant in transactions instead of harmony as put forward by classical and neoclassical economics. Besides, according to Commons (as cited in Kaufman, 2017: 308), central concepts of institutional economics are property and ownership,

which help to regulate the economy, and also an institution is regarded as common control, liberation, and enlargement of individual behavior.

Wesley Clair Mitchell, who was a student of Veblen at Chicago University, is considered to be another prominent figure in old institutional economics. He claims that all institutions were linked to situations which led to transformations in the economic sphere as a result of changing dynamics and habits (Medema, Mercurio and Samuels, 1999: 424). He accepts Veblen's dichotomy between business and industry, and his research agenda aimed to construct and test Veblen's initiatives by using statistical data (Özveren, 1998: 485).

Hamilton is one of the widely esteemed names of institutional economics. He (1919: 311) argues that "institutional economics alone meets the demand for a generalized description of the economic order. It claims to explain the nature and extent of order amid economic phenomena, or those concerned with industry in relation to human well-being."

The English economist Geoffrey Hodgson is a contemporary and essential name for both old and new institutional economics. According to the Hodgson,

*Institutions are durable systems of established and embedded social rules and conventions that structure social interactions. Language, money, law, systems of weights and measures, table manners, firms (and other organizations) are all institutions. In part, the durability of institutions stems from the fact that they can usefully create stable expectations of the behavior of others. Generally, institutions enable ordered thought, expectation, and action, by imposing form and consistency on human activities. They depend upon the thoughts and activities of individuals but are not reducible to them (Hodgson, 2003: 163).*

Hodgson is played an active role in the revitalization of old institutional economic thought through his job and his contributions to the history of evolutionary institutionalism (Chavance, 2009: 71). "Adopting the same approach as Veblen, Hodgson states that Darwinism can be interpreted as a general methodology, whose scope goes far beyond just biology" (Chavance, 2009: 72).

## **2.2 NEW INSTITUTIONAL ECONOMICS**

Since the 1980s, mainstream economics has radically changed, and with the help of evolutionary and institutional economics, provided an atmosphere for intervention opportunities (Hodgson, 2007: 7). Towards the end of the 1980s and

particularly during the 1990s, old institutionalism became popular again for several reasons. These reasons can be listed as follows; substantial frustration with the administrative basis of economics and its neoclassical basis, various dilemmas of economic development, the fundamental changes in the capitalist economies, and the transformation in post-socialism (Chavance, 2009: 71). Stein (1995: 110) indicates that Commons, and Veblen, refused neoclassical economics and would refuse new institutional economics because of its emphasis on rational, utility-maximizing behavior of individuals. On the other hand, the idea that the old institutional economics had a non-theoretical tendency predominates with the new institutional school (Chavance, 2009: 83). According to Furubotn and Richter (2005: 41), John R. Commons was the most important old institutionalist from the viewpoint of the new institutional economics. Because, Furubotn and Richter (2005: 41)'s work, due to its direction, had particular significance for the development of modern institutionalism. He advanced the proposition that the transaction (the transfer of ownership) should be regarded as the ultimate unit of economic investigation.

Different from the old institutional economics, according to North (1994), it is vital to understand the difference between institutions and organizations (Chavance, 2009: 50). For North (1990: 4-5), "If institutions are the rules of the game, organizations and their entrepreneurs are the players". Rules can be a guide for individuals' behavior (Klein, 1999: 458). These rules indicate the methods used in the game. At the same time, the teams make an effort to succeed in the game under the defined rules by using different strategies, coordination, competences, and fair or foul tools (Chavance, 2009: 50). For Chavance (2009: 46), "a theory of institutional economics centered on the organization. Although the market is itself described as an institution, its analysis in this respect is not really developed." According to North (1990: 4-5);

*Organizations include political bodies (political parties, the Senate, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, cooperatives), social bodies (churches, clubs, athletic associations), and educational bodies (schools, universities, vocational training centers). They are groups of individuals bound by some common purpose to achieve objectives (North, 1990: 4-5).*

In short, while the old institutional economics might be accepted as descriptive, holistic, and behaviorist, the new institutional economics can be considered as formalist and reductionist. "In ideological terms, the former can be depicted as

collectivist and lacking technical rigor, the latter as anti-interventionist and excessively devoted to highly mathematical rational choice modeling” (Harriss, Hunter, and Lewis, 1995: 5). Nevertheless, old and new institutionalists are concerned with the determinants of change over time. NIE presents change as evolutionary while attaching higher value to the role of the person (Harriss, Hunter, and Lewis, 1995: 5). For Hodgson (2000: 325) argues that institutionalism is different from NIE. He states,

*Institutionalism is distinguished from both mainstream economics and the ‘new institutional economics’ precisely for the reason that it does not assume a given individual, with given purposes or preference functions. Instead of a bedrock of given individuals, presumed by the mainstream and new institutional economics, the old institutionalism holds to the idea of interactive and partially malleable agents, mutually entwined in a web of partially durable and self-reinforcing institutions. No other criterion demarcates so clearly the old institutional economics, on the one hand, from new institutional and mainstream economics on the other (Hodgson 2000: 325).*

Before delving into the details of new institutional economics, it will be appropriate to identify the relationship between the neoclassical economic thought and new institutional economics. For Furubotn and Richter (2005: 35), on the new institutionalist side, there is skepticism about the usefulness of the formal approach because the formal contract theory stays relatively close to neoclassical bias. Besides, decision-makers have a capacity for highly rational behavior. The new institutional economics maintains the neoclassical axioms of methodological individualism (Hodgson. 1993: 1), and it indeed rejects the restrictive assumptions regarding the market, which is central to neoclassical economics (Harriss, Hunter, and Lewis, 1995: 2). North (1995: 17) states that “The NIE builds on, modifies, and extends neoclassical theory to permit it to come to grips and deal with an entire range of issues heretofore beyond its ken. What it retains and builds on is the fundamental assumption of scarcity and hence competition—the basis of the choice theoretic approach that underlies micro-economics.” According to North (1994), there are principal errors in the neoclassical tradition, and these errors can be summarized as follows; neoclassical economic thought ignores institutions and time, it neglect transaction costs, the role of ideas and ideologies in the political process, and the economy (North, 1994). Transaction cost is associated with new institutionalism, and it did not exist in the neoclassical model. It was Coase who made the critical link between institutions,

transaction costs, and neoclassical theory, a connection which even now has not been entirely understood by the economics profession (North, 1995: 18).

To summarize the relations between NIE and neoclassical economics, it is essential to understand that the NIE considers the transaction costs, and they accept institutions as important determinants for economic performance. From this aspect, NIE is a kind of advanced version of neoclassical economics (Harriss, Hunter, and Lewis, 1995: 3). Scholars in the new institutional economics discipline would probably propose an instrumental view; all institutions have been created consciously to decrease the transaction costs of economic transfer and production. A different viewpoint is that institutions are the unplanned results of evolution and that institutions can change unconsciously (Olsson, 1999: 3).

After emphasizing the relationship between the different schools of thought now, it is time to talk about what is the new institutional economics. Authors and researchers thought that new institutional economics came out in different ways. There is not a distinct idea about the founding fathers in the literature, but it might be appropriate to give current opinions that are accessible in the literature. Klein (1999) gives information about the background of new institutional economics. For him, traces of this movement can be found in several articles, such as Coase's 'The Nature of the Firm' (1937), Hayek's writings on knowledge (1937, 1945), and Chandler's (1962) writings on the industrial enterprise (Klein, 1999: 457). In addition to that, the new institutional economics is associated with the work of best-known representatives such as Ronald Coase, Douglass North, Oliver Williamson (Klein, 1999: 457). Notably, the term new institutional economics was originated by Williamson, with his article 'Markets and Hierarchies: Analysis and Antitrust Implications' (1975) and also has improved as a self-aware movement in the 1970s (Klein, 1999: 457). With the new approach, the existence of transaction costs was noticed (Furubotn and Richter, 2005: 34). From the 1990s on, after Williamson's new institutional economics, a significant amount of literature based on transaction costs was produced (Chavance, 2009: 48).

According to Harris et al. (1995: 1), "the importance of the new institutional economics was confirmed by the award of the Nobel Prize for Economics first in 1991 to Ronald Coase, whose seminal papers on 'The Nature of the Firm' (1937) and on 'The Problem of Social Cost' (1960), and then in 1993 to Douglass C. North". Harriss,

Hunter, and Lewis (1995: 1) state that the new institutional economics is crucial because; firstly, the new institutionalism can be accepted as an emerging body of theory within the framework of neoclassical economics, while trying to overcome the problems and complications in neoclassical theory. Therefore, the new institutional economics is significant as an enormous development within the mainstream theory of modern economics. Secondly, the new institutional economics is essential in the framework of economic policy in the 1990s because it has shaken the dominant position of the market, which is central for the orthodoxies in the last ten years. Finally, its importance for development research increases the prominence of new institutional economics (Harriss, Hunter, and Lewis, 1995: 1).

New institutional economics defends that people choose the most effective ways of maximizing rationally chosen ends (Harriss, Hunter, and Lewis, 1995: 3). North (1995: 18) argues that individuals make choices based on their mental models. For Bates (1995: 35), "rational individuals, confronted with the limitations of individually rational behavior, create institutions that, by creating new incentives or by imposing new constraints, enable them to transcend these limitations." In addition to that, new institutional economics provide a chance for scholars to make a separation between the real world and individuals' and groups' perceptions of it. New institutional economics not only attempts to emerge the relation between the individual and the collective in rational decision-making but also suggests an interpretation as to why the evolutions of people or countries differ (Harriss, Hunter, and Lewis, 1995: 2).

The new institutional economics is still in the process of development, and its main subjects are transaction costs, property-rights analysis, the economic theory of contracts (Furubotn and Richter, 2005: 36). It is a body of economic theory that describes a vital role in ideas and ideologies and provides a field for interdisciplinary inquiry (Harris, Hunter, and Lewis, 1995: 2). Klein (1999: 456) argues that "this interdisciplinary enterprise is combining with economics, law, organization theory, political science, sociology, and anthropology to understand the institutions of social, political, and commercial life." After all, NIE contains plenty of various social sciences disciplines, but its primary communication way is economics.

In short, the new institutional economics is associated with the work of best-known representatives. Firstly, it starts with Oliver Williamson, who is the creator of

the term. This term originated in the 1990s and referred to various theoretical movements combined with the idea that institutions matter. This idea can be analyzed with the instruments of standard economic theory (Chavance, 2009: 45).

New institutional economics was introduced first in Williamson's book *Markets and Hierarchies* (Klein, 1999: 457). There is a relationship between old and new institutionalism, but he criticized old institutionalism with neoclassical tools. Williamson (2000: 596) gives a reasonable structure of institutions, and he based institutions into four levels. The first is the social embeddedness level, which matches up with North's (1990) informal institutions. It includes norms, customs, mores, traditions, and religion (Williamson, 2000: 596). The first-level institutions are characterized by their stability and strength because of that, this level of institutional change takes place slowly, and it can take centuries (Dobler, 2011: 13). The second level is the institutional environment and connected with formal institutions such as property rights, judiciaries, laws, or constitutions. According to Williamson (2000: 596), the formal rules change faster than the informal institutions. The first two levels of Williamson's approach coincide with North's (1990) explanation about formal and informal institutions. However, Williamson (2000: 599) has also added two more levels that differentiated the institutional analysis. According to him, level three is called governance, which includes the subject of a particular order, contract administration, and 'the governance structure rights. "Level four, however, regards the economy from a macro-level and deals with resource allocation and macroeconomic optimality analysis" (Dobler, 2011: 13).

Transaction costs are an indispensable part of NIE. As mentioned before, transaction costs are not considering in the neoclassical thinking; they consider only production costs. Williamson distances himself from the neoclassical school by defining his view of bounded rationality and his thesis of opportunism. Williamson also highlights the differences between the contractual man and the economic man who is ready to lie and cheat to protect his interests. So, with these assumptions, we can differentiate his attitudes from neoclassical assumptions (Chavance, 2009: 46).

Douglass North is another pioneer of the new institutional economics. In his early work, Douglass North defended a neoclassical approach to define institutions, and later, he acted in an institutionalist manner and provided efficient solutions to

economic problems (Chavance, 2009: 48). According to North (1995: 18), neoclassical economics accept efficient markets only if their results are costless. When economists realized that the costs of transactions come into existence, institutions became an important matter. Because of that, an essential part of national income is allocated to transactions, institutions, and particularly property rights that are a significant effect on the performance of markets. North developed a unique form of institutionalist theory, and in the end, this unique form shared certain concepts with heterodox institutional economics (Chavance, 2009: 49).

Douglass North did not wholly abandon the neoclassical theory. The aspects of the neoclassical theory that Douglass North is concerned to maintain are as follows; the assumption of scarcity and competition, decision making under constraints, microeconomic theory, and the influence of relative prices. According to North (as cited in Chavance, 2009: 49), there are three non-negligible failures of this tradition. Firstly, neoclassical economics ignores institutions and time; secondly, it also ignores transaction costs, and finally, neoclassical assumptions about rationality have to be "dismantled." Through the evolutionary strategies, he completely abandoned the neoclassical approach, and also he appeared to reverse it by explaining that institutions are in reality based on power (Chavance, 2009: 50). In his earlier writings, North (1986: 230) defines the new institutional approach with a different name. He used the name modern institutional economics and associated it with two assumptions: One is that the theoretical framework should manage to combine neoclassical theory with an analysis of the method in which institutions make choice preferences available to individuals. The other is that this framework must rest on the primary determinants of institutions so institutional economists can define the choice set available to people at any time and analyze how institutions change and, therefore, alter the available choice set over time. North (as cited in Chavance, 2009: 84) keeps that the institutions are a set of rules, adaptation methods, and moral and ethical behavioral norms, determined to limit the behavior of individuals to maximize the utility of wealth.

### 2.3 INSTITUTIONS AND ECONOMIC DEVELOPMENT

Before explaining the relationship between economic development and institutions, it is necessary to clarify a few issues, such as the definition of institutions, separation between institutions and organizations, and why institutions matter. After clarifying these three topics, institutions, institutional change, and economic development will become visible automatically.

To define institutions, we should briefly go back to the most known pioneers and their popular explanations about institutions. Veblen is the most famous theoretician in the field of institutional economics, and he (as cited in Eren, 2018: 57) describes institutions as “widely accepted thought and behavior habits in a certain period.” Commons (as cited in Kaufman, 2017: 308) defines the institution as “collective action in restraint, liberation, and expansion of individual action”. Chavance (2009: 20,21) states that while some thoughts and theories are common to both theoreticians, especially about the importance of institutions in the economic hemisphere, their suggestions never vary substantially on a critical level. Commons’ theory combines “law, economics and ethics, without insisting on the need for a general vision of the evolution of institutions” (as cited in Chavance, 2009: 21). Although Veblen was a critical researcher of institutions, Commons criticized institutions in a more positive light, and he was directly concerned with social reform dilemma (Chavance, 2009: 20).

North (1990: 3), on the other hand, is a pioneer of the new institutional economics, and he defines institutions as follows, "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction."

*Institutions are made up of formal constraints, informal constraints, and the last one is their enforcement characteristics. In consequence they structure incentives in human exchange, whether political, social, or economic... Conceptually, what must be clearly differentiated are the rules from the players. The purpose of the rules is to define the way the game is played. But the objective of the team within that set of rules is to win the game . . . . Modeling the strategies and skills of the team as it develops is a separate process from modeling the creation, evolution, and consequences of the rules (North, 1990: 3–5).*

Institutional constraints are imposed by society, and they are like a kind of barrier against freedom. As opposed to this negative argument, we can say that rules and

constraints are misinterpreted by society. Institutions shape the relationships among individuals and make life easier, so we can say that rules can be a guide for individuals' behavior (Klein, 1999: 458). Institutions reduce uncertainty by providing a defined structure for everyday life (North, 1990: 3), and also eliminate imperfect information. In a world without institutions, we would not know how to deal with each other (North, 2003: 1). In short, the institutions limit and define the choice set of the individuals, and also institutions regulate social interactions (Lin and Nugent, 1995: 2306). According to Dobler (2011:14),

*North's (1990) approach seems to include the most comprehensive and accurate definition of institutions. Based on his approach, further more or less restrictive definitions can be specified to analyze certain institutional issues. Some economists use the term 'rules-of-the-game approach' to describe institutions as purely exogenous.*

As North (1990: 2) states, institutions arise with the help of formal restrictions, such as rules, laws, constitutions, contracts, and property rights, which are supported by exact enforcement. Formal rules are very straightforward and have the character of being specific. Also, institutions occur with the help of informal norms, which are problematic because they are unwritten, often implicit, such as norms, ethics, customs, taboos, and ideologies. North (1990: 2) states that “the kinds of formal rules that we have in fact occupy a very small proportion of the guides to everyday behavior and actions. In many ways' norms are more important than the formal rules”. Informal rules are a combined part of a culture, and people who are living in the same society have learned these rules automatically because of the cultural heritage (Olsson, 1999: 3). Cultural heritage means that informal institutions exist entirely in human minds, like specific codes of behavior. People within the same culture act by the same codes of conduct; therefore, all individuals in a specific population know how others will react (Dobler, 2011: 4). North (2003: 4) says,

*I mean a set of institutions and beliefs that has been carried forward over the generations that constitutes the basic way we perceive the world. We have a very limited ability to change it; it is path dependent in the sense that the inheritance we have of rules, norms, beliefs – those that have survived – is deeply embedded. Sometimes the embeddedness is deeper than at other times but it poses a genuine problem because that cultural heritage produces a mix of good and bad that shapes the way in which we make choices and the ways in which societies and institutions evolve.*

Veblen (as cited in Hodgson, 1993: 15) explained informal institutions as “settled habits of thought common to the generality of men”. The last component of the

creation process of institutions is enforcement. Because the enforcement of both formal and informal rules of behavior is essential (North, 2003: 2), all these formation processes of institutions require a long time. Formal institutions especially come into force as a result of a specific time and decision process. At this point, it would be helpful to assume that institutions occur within the evolutionary process. To explain the occurrence of institutional structure, we can use Veblen (as cited in Hodgson, 1993: 18) 's words, "the life of man in society, just as the life of other species, is a struggle for existence, and therefore it is a process of selective adaptation. The evolution of social structure has been a process of natural selection of institutions." Veblen (as cited in Hodgson, 1993: 16), argues that "habits and institutions had a cognitive dimension." According to him, the formation process of institutions and habits of thought results from a complicated interaction between different levels and temporalities of evolution. "Originally the habits of thought theory was based on an analogy with the reproduction of genes, and therefore adhered to a strong biological determinism that marked the beginning of evolutionism in economics" (Moulaert and Mehmood, 2009: 202). The most profound level, Chavance (2009: 12) says "is that of instincts or hereditary propensities, the result of selection over a long biological and social period throughout the history of humankind". Veblen (as cited in Hodgson, 1993: 16) argues that today's situation shapes tomorrows' institutions with the help of a selective and forcible process by acting upon human's habitual view of things, and so changing or strengthening the point of view of an ancient mental attitude.

After defining the institutions, it is essential to explain the difference between institutions and organizations. Many people use the words organization and institution interchangeably. Although this usage is not entirely wrong, theoretically, there is a specific difference between institutions and organizations. This interchangeable usage is one of the key differences between the old and new institutionalism. As opposed to old institutional economics, for the North, it is essential to understand the distinction between institutions and organizations (Chavance, 2009: 50). New institutional economics is based on the fundamental insight that the founding of institutions and organizations, and their daily usage, needs the input of real resources (Furubotn and Richter, 2005: 34). According to North (1990: 4-5), a clear distinction should be made and, "if institutions are the rules of the game, organizations and their entrepreneurs are

the players”. A clan, a labor union, a company, or a state, are examples of organizations in this sense. Institutions and organizations are strongly interdependent. In some sense, it might be argued that "organizations are the embodiment of underlying institutions". For instance, a community might be thought of as an organization depending on the institution's religious faith (Olsson, 1999: 4).

Another important name for the institutional economics is Schmolter; he assumes that the political economies of different states must focus on institutions and organs, alongside natural and technical conditions (Chavance, 2009: 4). Schmolter and many other researchers used the term 'organs' instead of an organization, but both have the same meaning. The comparison of the organ and the institution is essential for a better understanding of the social body (Schmolter, as cited in Chavance, 2009: 5). Schmolter also states that,

*By constituted organ (Organbildung) we mean the personal aspect of the institution: marriage is the institution, the family is the organ (Organ). Social organs are the constant forms taken by the union of persons and goods with a view to the attainment of given objectives: the gens, the family, associations, corporations, confraternities, communes, firms, the State, these are the essential organs of social life (Schmolter, 1900: 150).*

Hodgson (2006: 1) is mentioned the importance of defining organizations and institutions,

*Furthermore, endless disputes over the definitions of key terms such as institution and organization have led some writers to give up matters of definition and to propose getting down somehow to practical matters instead. But it is not possible to carry out any empirical or theoretical analysis of how institutions or organizations work without having some adequate conception of what an institution or an organization is (Hodgson, 2006: 1).*

In its shortest definition, institutions regulate human interactions with the help of formal rules, informal norms, and enforcement. To be successful in the end, institutions provide motivations moreover obstacles for people to act in specific ways (North, 2003: 1). We already explained what institutions are and how they affect human behavior and limits. In general, we should focus on how institutions work and why they work the way they do. From this point on, we will discuss why institutions are important and why we should care about them. After Douglass C. North, received the Nobel Prize in 1993, the saying 'institutions matter' has become popular. To explain the importance of institutions, North says that "when it is costly to transact, then institutions matter. And it is costly to transact" (1994: 360). According to North

(2003: 2), economics is a theory of choice. Institutional economics adopts the bounded rationality assumption during the decision process. On the other hand, mainstream economists accept that people are consistent and logical agents in the system. So, the dominant economic idea does not answer the question of making choices in the face of imperfect and complex information. North (2003: 1) argues that “institutions are the incentive systems that structure human interaction. They can make predictable our dealings with each other every day in all kinds of forms and shapes.” Throughout history, people designed institutions to build a system and decrease current uncertainty risk in transactions (North, 2001: 97). “They thereby not only reduce uncertainty in the world but allow us to get on with everyday business and solve problems effectively” (North, 2003: 1).

Institutional performance can be successful as a result of the effective implementation of formal rules and informal norms at the same time. If we want to improve the institutional performance of a particular country, every person should take responsibility equally. Formal and informal institutions affect each other, and this connection is characterized by shared thoughts, customs, habits, and values (Hodgson, 1998: 176). To illustrate the importance of institutions and their close interactions with the values of a country, we can provide North’s example,

*When Latin American countries became independent in the early nineteenth century, most of them borrowed from the United States Constitution because it was a set of formal rules that looked as though they worked quite well. They worked all right for the United States, but they certainly did not work well for Latin America. The reason is very straightforward; neither their informal norms nor their enforcement characteristics were anything like what they were in the United States. It is not surprising that that is so. Indeed, in general, borrowing rules from another society which has different informal norms and different enforcement characteristics is a guarantee of having a rude shock concerning the consequences and implications. (North, 2003: 7)*

Briefly, rules and norms create different institutions depending on people’ playing the game according to the rules or trying to avoid them. In the world we live in, there is always deficiency enforcement of rules, laws, and norms. However, the level of deficiency plays an important role in some of the things that we are trying to handle (North, 2003: 2).

Every decision we make as homo-economicus is open to the effects of institutions and institutional environments. Even when we think about something straightforward, the rules posed by institutions and the dominant economic thoughts

limit us. Moreover, institutions shape not only us, but also other institutions. For instance, economic institutions, which shape our world directly, stem from political institutions, which means that the government makes and implements the economic rules of the game (North, 2003: 4). Economists are interested in who establishes the rules and for whom. So, North claims that the significant point is to understand how we have organized the rules of the game regarding the which players' decisions are more important than others how choices combined, and how in turn that produces how a policy-makers establishes the rules that directly shaped the economy.

Institutional development attracted attention, especially after the 1970s. Before describing the connection between institutions and economic development, it would be more appropriate to define economic development. Economic development is the process of improving living standards. As Chang (2007: 13) states that “there is no simple formula for an institutional development that countries can import and neatly apply in order to promote their economic development.” Lin and Nugent (1995: 2339) state that institutional development requires both enlightened rulers and administrators responsive to changing needs. “However, as agents of the ruler, bureaucrats have personal interests that differ from both those of the ruler and those of the ruler’s principal, the people” (Lin and Nugent, 1995: 2339).

The gap between countries cannot only be explained with the economic data. Institutional economics criticized neoclassical economics because the neoclassical approach always misses some points and has inadequate ability to fulfill the needs, as explained in the previous chapters. Neoclassical economics was never intended to overcome economic development problems, and it aimed to describe effective resource allocation in advanced economies (North, 2003: 1).

Now it is time to ask how institutions affect economic development? We will ask some other questions throughout this section. With the answers, we will try to clarify whether there is a relationship between economic development and institutions. The relationship between economic development and institutions is an important topic and closely related to institutional economics. Since institutional economics is an economic theory and covers all kinds of institutions such as political, economic, moral values regarding this relationship, Chang (2011: 476) is noted the dominant view which presented institutions as the ultimate determinants of economic performance.

However, the causality from economic development to institutions is usually neglected (Chang, 2011: 476). According to him, economic development affects institutions in three ways. The first is the increasing demand for establishing a better-quality institution with increased wealth due to growth. Second, increased wealth makes the demanded good-level institutions more accessible. Because the institutions are expensive to build and operate, the higher quality institutions means higher cost. Third, it creates new change agents that demand new institutions with economic development (Chang, 2011: 476).

Chang (2011: 481) says that institutions can influence economic development, and contemporary mainstream discourse on development, and institutions cannot comprehend that the association is not rectilinear. Instead, it changes rapidly, even within the same community. Dobler (2011: 7) gives an example of the difference in development between the developed countries of the Western hemisphere and MENA countries. He states that to explain these differences, "a historical-comparative analysis is necessary. Such an analysis must highlight the developments and historical accidents responsible for the formation of the current institutional system in the corresponding region" (Dobler, 2011: 7).

The other critical question, which institutions are essential for economic performance? was asked by Rodrik (2000: 6). Rodrik highlights the significance of institutions such as property rights, administrative institutions, institutions for economic stabilization, social security, and conflict management systems. The analysis of institutions within five sections involves most of institutions that essential for economic growth (Redek and Sušjan, 2005: 998). These institutions and many more like them are never guaranteed for every country because everything is in the process of evolution. Besides, in the literature, there is no consensus about the relationship between institutions and economic development (Chang, 2007: 18). Chang (2007: 18) classifies three critical functions of improvement for economic development, which are used by institutions. The first function is coordination and administration; the second function is to learn and innovate, and the third function is income redistribution and social union. On the other hand, Chang (2007: 18) defends that, in the end, there is no one correct way to define the functions necessary for economic development. Furthermore, he adds that "even if we can agree on the list of

functions that are essential for economic development, this does not mean that we can agree on the exact kinds and forms of institutions that we need to fulfill those functions."

## **2.4 CONCLUSION**

Institutional economics emerged as a heterodox approach to the economic society (Medema, Mercuro, and Samuels, 1999: 419). According to Whalen (as cited in Medema, Mercuro, and Samuels, 1999: 419), three factors of influence caused the occurrence of institutional economics: first, German historical school, the other influence originated from American pragmatic philosophy, and the third influence came through Veblen's writings. Institutional economics places at the heart of analysis the examination of the institutions in the current economic system.

Institutional economists want a road to concrete reality while aiming to highlight the truth and cruciality of people's lives and counteract the traditional economic viewpoint about being disconnected from world affairs. Besides, institutionalists critically analyze the current situation stressing the increasing economic gap between advanced and least developed countries. OIE against traditional economic viewpoint about being disconnected from world affairs. The assumption that individuals are not given but formed by institutions is what separate OIE from mainstream. In the second section, we focused on NIE, and directly property rights, transaction costs, and theory of contract. NIE improved as a self-aware movement in the 1970s. After the 1980s, the radical change in mainstream economics created a suitable environment for the development of new institutional economics. These changes can be summarized as follows, the substantial disappointment with the governing body of current economics and its neoclassical basis, various economic development problems, the structural changes in the capitalist economy, and the transformation in post-socialism. NIE maintains that individual economic agents choose the several effective means of maximizing rationally determined results. NIE provides a chance for scholars to make a separation among the material world and people's and group's perceptions. For the last section, we can say that institutions regulate human interaction with the help of formal, informal institutions and

enforcement. Also, institutions provide motivations moreover obstacles for people to behave in specific ways.

This chapter's primary purpose was to present the institutional definition of the old institutionalists and the institutional definition of the new institutionalists to the reader. Veblen describes institutions as generally accepted thinking and behavior habits in a specific time. Commons (as cited in Chavance, 2009: 27) describes the institution as collective action in control, freedom, and improvement of personal action. Institutions decrease uncertainty by giving a defined structure for daily life (North, 1990: 3) and eliminating imperfect information. Institutions shape the relationships among individuals and make life easier, so we can say that rules can guide individuals' behavior (Klein, 1999: 458).

On the other hand, we tried to give the institutions' effect on the economic development to provide the meaning relationship with the first chapter. The conclusion we can reach here is that the institutions indirectly affect economic development and economic change. In short, the institutions restrict and determine the choice set of the individuals; furthermore, institutions regulate social interactions (Lin and Nugent, 1995: 2306). In a world without institutions, we would not know how to deal with each other (North, 2003: 1). Institutional performance can be successful as a result of the effective implementation of formal rules and informal norms at the same time. Chang (2011: 481) said that institutions could change economic development; however, the relationship between institutions and development is not linear. Instead, it changes between communities, and also it differs even in the same society.

### **CHAPTER THREE**

#### **INSTITUTIONAL ARGUMENTS ABOUT BRAIN DRAIN**

In this part of the study, the institutions that cause brain drain will be examined. As it is known, this study aims to examine the brain drain from every frame by referring to the institutional economics. To the knowledge of the author, reasons and results of brain drain have not been examined as part of a specific theory or school of thought in the literature. In this study, formal and informal institutions will be used to explain the reasons of the brain drain. Institutions, both formal and informal, are essential because they reduce uncertainty and create constraints within which individuals make rational decisions (North, 1991: 97). The importance of informal institutions does not come into many people's minds, but it plays a significant role in brain drain. Considering the informal institutions is also a crucial part of this study. Because, economic variables by themselves are not enough to predict the size of professional emigration (Portes, 1976: 490).

As Wong and Yip (1999: 699) states, brain drain takes into account as an important issue by economists and public administrators throughout the world. Brain drain is happening whereby high skilled people with specific abilities, references, and proficiency, leave from home countries and immigrate (Baruch et al., 2007). High-skilled labor immigration deserves more attention than it receives not only in economics but also in other social sciences. There is an important question to ask, "why do these persons leave their home countries and seek employment elsewhere?" (Dandekar, 1967: 1573). Should the reasons for brain drain always associate with formal institutions or/and lack of host country institutions? It would be false to think that brain drain happens only because of the deficiency of home countries' institutions. Even if home country institutions do not have deficiencies, the host countries may have charming institutions. In the first part of this section, the causes of brain drain will be evaluated within the framework of institutional economics. A detailed analysis of institutional reasons will be examined under two headings: one of them is the push factors of the home country and the other one is pull factors in the host country.

In the article “A Theory of Migration,” Lee (1966) states that the reasons that people migrate are determined by push and pull factors. Lee (1966: 50) explains many reasons that affect people decisions. He summarized these factors following four titles; factors connected with the home country, factors connected with the host country, intervening restrictions, and personal reasons. In this study, we use the terms of push and pull factors that will help us, thanks to Lee (1966). We accept that push factors occur at the point of the home country and motivate people to migrate. On the other hand, pull factors are occurring in the host country, attracting migrants.

### 3.1 DETAILED ANALYSIS OF INSTITUTIONAL REASONS

The migration of highly skilled professionals has a long history. It is possible to trace back this history to ancient Greece. Since then, professionals from different fields have transferred their skills across the globe. “Economic opportunities, political change, cultural interests, and global capitalism have narrowed limits, bridging hitherto separate worlds. Intellectual migration around the earth has undoubtedly become common” (Ansah, 2002: 21). Researchers must ask not only why emigration occurs, but also how it happens and who participates in it. Migration is a complicated phenomenon effected through the contemporary interaction of multiple factors working at different levels of gathering (Talat-Zrilli, 2019: 494).

In this part of the study, the reasons will be listed in general, not country based. We have no intention to separate institutions just as good or bad. Because it would not be realistic to think of institutions independently from the countries and culture that they are connected to, likewise, it would also be a mistake to assume that the single institution would be beneficial for every country. To explain this idea better, we can refer to the words of Chang (2007).

*First of all, we are still some way away from knowing exactly which institutions in exactly which forms are necessary, or at least useful, for economic development in which contexts. For example, everyone may agree that a ‘good’ property rights system is essential for economic development. However, what is, in fact, a ‘good’ property rights system?... Second, even when we understand what role a particular institution can play in economic development, we often do not know how we can build such an institution (Chang 2007: 3).*

In short, there is no one-size-fits-all solution for the current institutional structure. Every country applies various resolutions to a similar dilemma. Institutions are country-specific and cannot be removed out of context. Another issue is the timing because, as Chang (2007) states, there are characteristic features in a certain period, it takes time for institutions to emerge, and they cannot be created by a silver bullet.

Brain drain generally occurs in developing and underdeveloped countries, for instance, the African hemisphere has four of the most salient factors that lead directly to the migration of most highly talented to the North or rich countries. These factors are inequality; the gap between North and South; the colonial legacy of Africa; and finally socioeconomic, political and religious factors (Dei and Asgharzadeh, 2002: 32). The last two factors are obviously institutional factors, and the first two are directly related with institutional changes.

The starting point of this research is that political and economic factors are not enough to explain brain drain. It will not be appropriate to discuss only political and economic reasons stemming from developmental differences, because brain drain occurs between the countries with the same level of development. Brain drain occurs because of both formal and informal institutions. In this research, we assume that formal institutions can be inclusive or extractive, as Acemoglu and Robinson indicated. They argued that existing differences in development levels and so income inequality in the world can be explained primarily by institutional differences. With Can (2013: 83)'s words "Douglass North (1981) contributed significantly to the area of institutional analysis of society and the role of institutions for long-term development. Acemoglu and Robinson elaborated North's analysis by making a distinction between inclusive and extractive institutions in terms of their impact on a nation's development."

Informal institutions such as culture, the concept of freedom, intellectual living standards, corruption, and personality are shown as the important causes of brain drain in this study. In light of such information, both formal and informal institutions will be explained through both push and pull factors. We can list formal and informal institutions separately as push and pull factors. Push factors involve political and economic crises, military coups, and educational restrictions, which may lead to the emigration of highly skilled professionals. Pull factors, such as higher wages, better

living conditions, and limited restrictions for freedom, attract high skilled labor force into the host country (Das, 1979: 29).

The underlying reasons for the brain drain are directly or indirectly originated from the socioeconomic gap between countries. Some theories base the migration on cultural differences between countries and mentality differences. Other theories emphasize leadership or geographical conditions. In the following pages of this study, reasons for brain drain will be examined within the framework of institutions from different perspectives. While explaining the formal institutions, we use the NIE approach, because new institutionalists accept institutions as a more formal structure than OIE. New institutional economists, such as North, have emphasized formal institutions rather than informal institutions. In other words, their final point is always about formal institutions. It will be appropriate to use the NIE way of thinking in the analysis of formal based pull and push factors. While describing the formal institutions, we will refer to the inclusive and extractive political and economic institutions. On the other hand, while explaining the informal institutions, we use the OIE approach, especially Veblen's "habits of thought." Veblen's interpretation of institutions and the centrality of human beings in his analysis enable us to assess brain drain's informal reasons. Veblen (as cited in Eren, 2018: 57) describes institutions as a "widely accepted thought and behavior habits in a certain period." Veblen accepts individuals as a dynamic structure with habits and tendencies. For this reason, we can explain the informal institutions with the understanding of OIE. Veblen argues that instinct and habits form the basis of human behavior, and this has a significant contribution to the institutional structure. These instincts are not formal because they are in human nature; they depend on informal norms such as ethics, morals, traditions, and customs. Thus, it would be very logical to use Veblen and the OIE tradition in the interpretation of informal institutions. When we say the informal institutions of society, we are talking about the social norms and rules that determine the organization in which community lives. These norms and rules are at the core of human behavior. It is precisely for this reason that both formal and informal institutions are vital in the decision-making process.

### **3.1.1 Push Factors**

Jauhar et al. (2016: 73) state that “brain drain has been seen as a way of escaping from current unsatisfactory living and working conditions which is natural human behavior as a means for survival and also for most everyone to upgrade current situations at home”. In this study, we examined the push factors in two categories, the first one is ‘fear,’ which is directly related to unreliable/ unstable formal institutions, and the other one is ‘anxiety,’ which is directly related to the informal institutions in the home country.

#### **3.1.1.1 Fear-based Factors**

People are afraid because of their distrust of home country institutions. All countries in the world have harmful institutions large and small, and Acemoglu and Robinson call extractive institutions. If the political system is not pluralistic or not adequately centralized or both happen at the same time; consequently, extractive institutions emerge (Can, 2013: 84). We can expand the variety of unreliable/unstable formal extractive institutions. In this part, fear is directly linked to the country’s lack of political and economic institutions. Having fear occurs because of the lack of confidence in institutions, so highly qualified people want to migrate from home countries. We can summarize the things that push high skilled labor forces to migrate from home countries as follows: economic and political instability, insufficient control mechanism, lack of enforcement of rules and norms, poor working and living conditions, and inadequate education service. A detailed institutional explanation of fear-based reasons will be presented one by one.

The first push factor is economic and political instabilities. Mostly there are significant divergences in economic and political institutions across countries. These differences can see in many institutions, such as the implementation of ownership rights, entry barriers, constitutional systems, democracy vs. dictatorship, restrictions on bureaucrats and political elites, and the last one is electoral rules in a democracy (Acemoglu et al., 2005: 392; Acemoglu and Dell, 2010: 172). “People migrate for a variety of reasons, including to escape unsatisfactory economic and political

institutions. When individuals are facing such institutions, they can choose to stay in their home country and devote resources to change them, or they can change which institutions they face through international migration” (Schiff and Docquier, 2016: 95). Inadequate economic and political institutions/entities are the most prominent institutions that create the base for all instabilities. Because, “economic institutions are rules of the game in a society, such as contract enforcement, control of corruption, property rights, refers to how public goods and services are delivered” (Li, McHale, and Zhou, 2017: 1455). Political institutions can be accepted as a civil order, constraints on politicians and elites, and electoral rules in a democracy. Most studies show that inadequate economic and political development in the Third World have been forcing academics and other professionals to leave (Zweig, 1997: 95). We can clarify the significance of economic and political institutions with the help of Acemoglu and Robinson’s (as cited in Can, 2012: 83) main argument, which is “political and economic institutions are the fundamental cause of income inequality in today’s world”. Additionally, income inequality can be counted as a significant push effect on brain drain. Acemoglu and Robinson state that,

*Economic institutions encouraging economic growth emerge when political institutions allocate power to groups with interests in broad-based property rights enforcement, when they create effective constraints on power-holders, and when there are relatively few rents to be captured by power-holders (Acemoglu, Johnson and Robinson, 2005: 387).*

To clarify the citation, we can say that political and economic instabilities also create a gap between rich and poor people. These instabilities also create favoritism, and this situation enabling elites to siphon materials and opportunities off of less fortunate, with the help of extractive institutions (Acemoglu and Robinson, 2012: 146).

To give an example from China about the effect of political reasons, we can ask Zweig’s (1997: 92), question “why people chose not to return.” It has a close relationship with why brain drain occurs. According to Zweig (1997: 93), “the military assault on Tiananmen Square on June 4, 1989, transformed the brain drain into a veritable avalanche.” Four years after the crackdown, for high-skilled people concerned about lack of political freedom, lack of career opportunities, poor working conditions, and lack of confidence in the state were equally important reasons for leaving and not returning (Zweig, 1997: 92). To explain the effect of economic instabilities on the brain drain, we can give another example from the recent past,

*Greek financial crisis and its impact on society which generated a mass exodus of talented and highly skilled physicians, seeking better job opportunities and salaries elsewhere. High unemployment rates, reduced salaries, severe and austere taxes, political corruption, and political instability lead to the departure of knowledgeable, talented, well-educated, and skilled Greeks from Greece to another country (Anastasiadou, 2016: 114).*

According to Anastasiadou (2016: 114), these listed factors adding to the aggravation of the high skilled migration in Greece are intimately associated with the reasons for the economic crisis and its remarkable outcomes on Greek society.

Another fear-based push factor is unfavorable working and living conditions. Bredehorst and Razum (2008: 950) are explained this factor with the example of health professionals. According to them in there are two main forces that encourage health professionals in Southern countries to seek jobs. These forces are low salaries and inadequate work conditions. Surveys about reasons for nurses migration show that their migration wishes are popular. In addition to the salaries, extremely heavy workloads, lack of promotion opportunities, and unsupportive management are primary factors that they complain about (Bredehorst and Razum, 2008: 950). To give another example, since the 1950s, many Chinese high-skilled people have left their country. Until the 1980s, low wages, lack of economic and political freedom, and weak intellectual ambiance were still pushing high skilled workers to migrate from Taiwan (Chang 1992: 33).

Academicians are indeed an excellent example of brain drain from all corners of the world. They were pushed to leave for many reasons, including a professional fight against very bureaucratic and political patronage systems of administration (Ansah, 2002:22). “In many developing nations, the university acts as a main think tank and platform for policy discourse and the source of ideas on diverse areas of life, and the flight of academics is detrimental to the institutions of higher education” (Ansah, 2002:22).

### **3.1.1.2 Anxiety-based Factors**

The other important push factor is anxiety. This factor comes to light with this question: why do some highly skilled people choose emigration while others decide to stay? The formal institutions are not enough to answer this question. Besides, anxiety

will be considered as depending on the outcomes of the informal constraints. Portes (1976: 490) argues that the data of economic development is an inadequate predictor of making a comparison between countries. Absolute and relative measures of professional brain drain cannot be predicted only by using formal institutions.

Anxiety based factors are directly related to boundaries and personality. This feeling occurs when a person concerns about the current and future situation because of the informal constraints. In parallel with this concern, highly qualified people want to emigrate from home countries. People feel restricted. Boundaries can be listed as responsibilities to society, unpredictable future, cultural and social pressure on skilled workers, lack of freedom, alienation to the nation, restriction of speech, and corruption. The other anxiety-based factor is personality. Migrants are concerned about the lack of their prestige in the home country, and mostly they immigrate because of their self-interests, curiosity, sympathy to the host country, and need for adventure. These listed informal institutions have a direct effect on the emotions of potential high skilled migrants.

We can summarize the factors which are based on boundaries as follows. The unpredictable future causes panic and anxiety for everybody, but some countries' citizens are affected more. Unpredictable future can be counted as both a fear and anxiety-based factor because formal institutions also have adverse effects on predictability. Acemoglu and Robinson gave the following North Korean example,

*After finishing school, everyone has to go into the army for ten years in Northern Korea. These teenagers know that they will not be able to own property, start a business, or improve their living standards even if many people engage illegally in private economic activities to make a living. They also know that they will not have legal access to markets where they can utilize their skills or use their earnings to purchase the goods that they need and desire. They are even unsure about what kind of human rights they will have (Acemoglu and Robinson, 2012: 74).*

Nobody wants to continue fighting in an insecure environment because high skilled workers cannot find the motivation to continue. It is not easy to live with the risk of being of unemployed overnight or unexpectedly sentenced to imprisonment. Unpredictable future based anxiety is a kind of freedom restriction. Because living with anxiety is a restriction in itself. If people are feeling anxious during the action or decision process because of the fear of prison, exile, and unemployment, this is a significant obstacle to human freedom. In short, the most critical freedom restriction

is people's inability to do what they want to do freely. Another anxiety based push factor is mainly related to alienation to society because of the cultural pressure on high skilled workers. Cultural pressures impose humiliating roles to both women and men, eventually causing gender inequalities and discrimination. All these reasons isolate people from society. Thus, highly skilled people become indifferent to their home country in some way and do not want to contribute. Bang and Mitra (as cited in Elveren, 2018: 15) defend the availability of education in brain drain by gender. They reached a conclusion that uneven circumstances for women in education and higher fertility rate, as a fundamental cause for the shortage of women participation in the labor force and lower-income levels, are both crucial push factors for women to migrate. So, it is essential to have equal access to education and lower fertility rates so women cannot escape from their home country.

Another boundary-based push factor is corruption, which "often involves the provision of a service by a public servant or politician in exchange for a bribe" (Lambsdorff, 2007:59). Conceivably, the problem of corruption is not the most alarming reason for brain drain, but it has a considerable push impact on highly skilled workers. Although corruption is accepted as an informal institution, it also has devastating effects on political and economic stability. "A vicious circle can exist whereby ineffective regulation leads to corruption, which in turn improves the extra spread of damaging regulation to become administrative power and the opportunity to exact additional payoffs" (Lambsdorff, 2007: 60). In addition to that, corruption means to the collapsing of some or all fields of the public sector (Lambsdorff, 2007:58). As stated by Myrdal (as cited in Lambsdorff, 2007: 60),

*In many underdeveloped countries . . . the damaging effects [of quantitative controls] have been severe. The system tends quickly to create cancerous tumors of partiality and corruption in the very center of the administration, where the sickness is continuously nurtured by the favors distributed, and the grafts realized. Industrialists and people in business are tempted to go in for shady deals instead of steady regular business. Individuals who might have performed useful tasks in the economic development of their country become idle hangers-on, watching for loopholes in the decrees and dishonesty in their implementation.*

Corruption also can change income inequality and poverty within multiple ways, including "biased tax systems, overall growth, and poor targeting of social programs as well as through its impact on asset ownership, education inequalities, human capital

formation, and uncertainty in factor accumulation.” (Gupta et al., 2000: 25). One crucial point is that

*Corruption adversely affects economic development has become a commonplace assertion in academia and public discussion. Identifying the precise reasons for this impact is not straightforward. However, the social consequences of corruption are the bureaucrats’ failure to commit to honesty once they are ready to take bribes (Lambsdorff, 2007:58).*

We can give another example about the destructive effects of corruption Using panel data on corruption for 1980–1995, Tanzi and Davoodi (as cited in Lambsdorff, 2007:76) suggest that “corruption lowers the quality of the infrastructure’ as measured by the condition of paved roads; and power outages.” Moreover, as Lambsdorff (2007: 76) puts forward, if corruption damages capital investments, it can also adversely affect human capital investment. Consequently, the human capital formation process will regress because of the distortion created by corruption in the government’s role in resource allocation (Gupta et al., 2000: 23). It is generally accepted that the corruption level in one country led to an increase in poverty due to the ineffectiveness of social services. It also encourages policymakers to invest in capital-intensive projects rather than labor-intensive ones (Rose-Ackerman, as cited in Gupta et al., 2000: 24). This means that the level of available social services for human capital formation is inadequate (Gupta et al., 2000: 24).

Personality based factors are effective enough to prompt high skilled human capital to migrate. Although there are lots of factors that affect brain drain, these factors can not exactly find the answer to the question of why some professionals are affected by pull and push factors and choose emigration, while others are not, thereby choosing to stay (Portes, 1976: 500). On this point, personality differentiations create a significant impact on the choices of high skilled workers. This issue has been gradually arriving in research on brain drain and has been attracting significant attention. The type of personality can be a crucial factor in deciding an individual's occupation, which is also related to culture and gender (Jauhar et al., 2016: 89). When we say the personality-based push factors, it means that factors are arising from personal wishes and thoughts. For example, thoughts of losing prestige, not seeing the value she/he deserves from the society, and an unsatisfactory job. These factors, which are based on self-interest, are important informal push factors for the brain drain. Because many people perceive applause as a source of motivation, and they always

work harder to feel important. From a high-skilled people's point of view, we can ask this question; if nothing is motivating, why should highly qualified people stay at home? For themselves or society? It is a mystery. Sense of wonder and sympathy are other personality-based push factors for brain drain, which means that brain drain occurs because of the need for adventure. Another personality-based factor is a passion for a more challenging job because some people need a challenge, and they want the competition. For these reasons, we can use the words of Jauhar et al. (2016: 111),

*According to McClelland's theory on motivation, people are driven by the three needs; need for achievement (nAch), need for affiliation (nAff) and need for power (nPow). These are the three motivating drivers and at least one of them plays a central role in suggesting why people want to progress further in their life. Those individuals who are highly motivated to achieve a certain status in life will want to have a good career path.*

According to Dole and Schroeder (2001: 236), why some people enjoy working in their current jobs, while others feel the opposite in similar situations, personality is the only reason for that question. Mynatt, Glover, and Schoroeder (as cited in Jauhar et al., 2016: 90) argue that personality and hierarchical conditions have an instrumental effect on turnover intention. Personality is a unique combination of psychological characteristics that affect a person's attitudes and relationships. We can give a country-based example, Jauhar et al. (2016: 90) found that personality has a subduing role in Malaysia's brain drain to Singapore.

### **3.1.2 Pull Factors**

Brain drain not only occurs due to inadequacies of the home country's institutions, but also because of the host countries' attractive offers to high skilled people. In this section, we will explain host countries' attractive features; in other words, 'the pull factors.' Current information defends that the brain drain happens from developing countries to highly developed countries mostly. In the light of this information, we can refer to Acemoglu and Robinson with the words of Can (2013: 84),

*Inclusive political institutions are defined as sufficiently centralized and pluralistic political structures in which absolute power cannot appear to govern the system in favor of those holding the power at the expense of the rest of the society... They characterize rich nations as the countries where citizens defeated the elites controlling the power and created a society in which political rights are*

*distributed widely. Also, in this society, the government is responsive to citizens and it is accountable for its actions. (Can, 2013: 84).*

Pull factors are precisely the opposite of push factors—they attract people to a specific location. Pull factors are based on two structures, the first one is ‘trust’ which is occurred by stable institutions, and the other one is ‘hope’ for both freedom and prosperity.

### **3.1.2.1 Trust-based Factors**

Trust plays a vital role in a society. People tend to migrate to environments they trust. A stable environment created by inclusive institutions and highly qualified people wants to migrate to these countries. If specific institutions provide the rules and control mechanisms, the feeling of trust is automatically raised in that society. We can summarize the things that attract them to these countries as follows: stable economic and political institutions, well-established working and living conditions, and the last one is high-quality education. More specifically, trust-based pull factors of a place are the availability of career opportunities and better living conditions, political and religious freedom, higher education and welfare systems, better transportation and communication facilities, a more reliable healthcare system, and security.

The trust here can be achieved through an inclusive economic and political institution. According to Acemoglu and Robinson (2012: 144), “inclusive economic institutions... are those that allow and encourage participation by the great mass of people in economic activities that make the best use of their talents and skills”. Li, McHale, and Zhou (2017: 1455) examine the relationship between migrant stocks and the nature of economic and political institutions. They also searched whether the detected interactions indicate a causal position for immigration. They identified economic and political institutions. They say, “well-performing economic institutions are the result of having enough physical and human capital to enable politicians to fund and manage public policies and administrative agencies in an effective manner.” Well-established legal systems and electoral rules in a democracy can be accepted as well-performing political institutions.

So, we can say that the major pull factor is stable economic and political institutions as inclusive formal institutions. “To be inclusive, economic institutions

must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract” (Acemoglu and Robinson, 2012: 68–69). On that point, about host countries, these two questions should be considered, is there a trusted government or a non-biased judiciary to defend the rights of all individual actors? Is the community defined by high ethical values that promote respect and create opportunities for all participants? (Spithoven et al., 2010: 36) The secret code is confidence with the help of inclusive economic institutions, securing property rights, promoting innovation, and business can provide.

*The key thing here is that inclusive economic institutions, word inclusive is supposed to emphasise that good institutions are not only provide secure property rights and such things, but they provide them inclusive, that is, they are broad based. The access to opportunity for participating economic activities, opening business, going and taking patents, etc. all of the inclusive economic institutions (Acemoglu, 2015: 303).*

The most important thing is institutional reliability, and there are two steps to build a reputable institution; the first one is a democratic structure, and the second one is merit. It is crucial to know that there will be no nepotism and/or partisanship for an appropriate position. If there is no nepotism and another kind of injustice management in the host country, high skilled workers and students will migrate with inner peace sooner or later. Because of stable economic and political institutions, automatically well-established institutions such as health, judiciary, and, education occurs. Well-established institutions can be examined under the heading of inclusive institutions; besides, inclusive institutions are a common feature of trust-based pull factors. Kao (as cited in Zweig, 1997: 94)’s survey, explains the reasons for brain drain as the “better facilities, higher salaries, a more intellectual atmosphere, more political freedom, and more academic freedom were pulling them to the United States.”

Another important pull factor is well-defined working and living conditions in the host country. It is a valid reason for immigration for high skilled people who deserve higher standards in their home country but cannot reach it both materially and morally. Tens of thousands of highly talented people immigrate to host countries to attain a better quality of life. The majority of highly skilled people, such as doctors, engineers, academicians, researchers, and administrators, as well as students, move to obtain better job opportunities, wages, and living conditions. In general, the increasing

number of job opportunities, satisfactory salary level and suitable working standards in several sectors of many well-developed countries, together create a pull effect on high skilled people's decisions who are living in an inadequate resource environment. If the home-country gives inadequate working and living conditions, even an unqualified job in a well-developed country can be a better option (Bredehorst and Razum, 2008: 950).

Highly paid job and well quality living standards is automatically an attractive pull factor for highly qualified people who are living in less developed countries. In addition to high wages, remittances also play a critical role in brain drain decisions. Migrants want to support their families left at home, and it is not only limited to just sending money but also sending remittances to compensate for some necessities such as education expenditures, better health care. Also, these remittances are sending as safety money for use during a time of crisis. Besides, “in the process, remittances fairly uniformly provide a key element in poverty alleviation” (OECD, 2007: 83) in least developed countries. “Indeed, since remittances are an addition to an economy’s income levels, they could only deepen absolute poverty if inequality were sharply increased in the process” (OECD, 2007: 83).

Another important but overlooked factor is globalization. Globalization can be attributed as a pushing force fueling the demand for high skilled immigration by the world's most developed countries (Lavenex, as cited in Carvalho, 2014: 2361). At the same time, high skilled professionals want to migrate to those countries because people quickly understand the increase in the level of globalization. They can see the difference between them and their colleagues in the world. That is why they want to live the standard they deserve.

### **3.1.2.2 Hope-based Factors**

The other important pull factor is ‘hopefulness’. Hope plays a vital role for everyone. Highly skilled people can choose the migration route to reach their hopes. This feeling attracts highly skilled people because informal institutions play a significant role in making life easier. What must be understood here is that highly skilled people have hope for what they cannot achieve in the home country. People

migrate for not only higher salaries but also migrate for hope. Hope-based factors are directly related to freedom and social network.

Hope based factors arise because of the informal norms, social ties between people, and traditions in the host country. In parallel with this hopeful situation, highly qualified people want to migrate to this kind of country. The hope of gaining freedom can be explained as follows. The majority of population in host countries respect choices, such as sexual orientation, religion, and personal preferences. Especially high skilled workers who live in conservative states, hide the truth because of social pressure for a long time to maintain their reputation. As one of the hope-based pull factors, freedom is about respect for informal institutions such as traditions, customs, moral values, religious beliefs, and other norms and behavior. More clearly, high skilled people become immigrants because of the hope for something meaningful for themselves. We can make a list of the significance level in general. The essential hope-based factor is to know that every thought and person deserves to get respect. The other important one is to know that everyone is equal, and everybody has an equal chance. Migrants believed that 'if I work harder, I will get a higher salary' at the end of the day. This hopefulness is the consequence of inclusive institutions in the host country. About previous information, Acemoglu and Robinson (2012: 75) give a country-based example. They compared South and Northern Korea, "South Korean teenagers know that, if successful as entrepreneurs or workers, one day they can enjoy the fruits of their investments and efforts; they can increase their living standards, buy consumer goods, cars, houses, and health care" (Acemoglu and Robinson, 2012: 75).

Another factor that gives people hope is social networks. Social networks can be examined under the heading of informal and formal institutions; besides, informal values/ institutions are a common feature of hope-based pull factors. For a long time, social networks been used to explain migration. These kinds of contacts between potential migrants and local people may have very different contents. Formal networks and informal relations, like support and friendship, can be vital in every type of migration (Jauhar et al., 2016: 111). This form of relationship is introduced as the social network and surrounds each individual. In organizational research, informal and formal social relations have become a critical, descriptive variable. Scholars believed that the content of social networks affects people's behaviors in many ways (Jauhar et

al., 2016: 89). We can say that social networks have an essential impact on migration decisions.

There is another significant network type that occur before the migration, and we can call it ‘pre-migration’ networks because migrants need answers such as how, where they migrate to, where they will stay, what jobs they will get. All these questions can be answered with the pre-migration networks (Jauhar et al., 2016: 64). According to Meyer (as cited in Jauhar et al., 2016: 64), before high skilled people migrate, they look for a kind of network to reduce possible risks.

*Potential migrants can use their connections and can reach the earlier migrants to reduce the risks and costs of migration as the earlier migrants would be able to provide them with resources that such as information on procedures, financial assistance, job opportunities, administrative assistance, physical attendance, emotional solidarity (Meyer, as cited in Jauhar et al., 2016: 64).*

This situation shows us factors such as family, friends, colleagues, and business networks are regarded to have a notable impact on decisions about migration. These decision-making processes are not made alone by the migrant. Mostly other significant groups of people who have powerful connections, such as families and friends, have an impact on decisions (Massey, as cited in Jauhar et al., 2016: 166). Jauhar et al. (2016: 89) are found that social networks have a positive effect on Malaysia’s brain drain to Singapore.

The content of the network may change and may include family, affiliation, hometown communities, and professional networks such as alumni, entrepreneurial networks, religious networks, and diaspora networks (Jauhar et al., 2016: 112). The most frequently mentioned social network type in the literature is diaspora networking. “Diaspora networks consist of groups of individuals engaged in the economies and societies of both their destination and their source countries. They can be formal or informal” (OECD, 2007: 93). In general, diaspora networks can contribute to the information transfer and social relations (OECD, 2007: 94). Diaspora networks know everything about host country labor-market conditions and methods of reaching social services that can assist newly arrived migrants to the network (OECD, 2007: 94). These information exchanges are not only limited to the labor-market but also includes information about hometown associations (OECD, 2007: 94).

### 3.2 CONCLUSION

The “brain drain” is a complex issue and effected by several reasons. In chapter three, we examined reasons from home and host country perspectives, including economic, political, personal, and social factors. We said that brain drain occurs because of two factors, the first one is the “push factors” in the home country, and the other one is “pull factors” in the host country. After that point, we decided to continue with human-specific emotions. We divided push factors into two. The first one is “fear,” which is caused by the formal institutions of the home country, and the other is “anxiety” caused by the informal institutions. Fear and anxiety counted as highly precipitating causes for high skilled people. We also divided the pull factors into two. These are the sense of “trust” caused by the host country’s formal institutions and the “hope” for the future caused by the informal institutions. Trust and hope accepted as charming reasons for high skilled people. In sum, push and pull factors directly affect migrants’ choices.

To explain fear-based factors, we asked this question: What kind of formal institutions affect highly skilled people and pushes them to leave? To do this, we used new institutional economics’ thought. The new institutional economics define institutions as a more formal structure, mostly focused on transaction costs, governance structures, and contracts. Besides, we also used extractive and inclusive institution definitions of Acemoglu and Robinson (2012) to interpret brain drain. Fear-based factors can be listed; political and economic instability, insufficient control mechanism, and education services; the last one is poor working and living conditions. To explain anxiety-based factors, we focused on highly skilled people’ boundaries and personalities. To do this, we used old institutional economics’ thought. The old institutional economists, especially Veblen, define institutions as a more informal based. They focused on social structures such as traditions, customs, moral values, religious beliefs, and other norms of behavior. Anxiety-based factors occurred because of boundaries that are directly created by culture. In this study, “boundaries” are used to explain anxiety-based push factors such as corruption, unpredictable future, gender inequalities, gender roles to men and women, lack of freedom, alienation to the society,

and lack of freedom to speak. These institutions affect high skilled people to migrate. These factors have a direct effect on people' decisions but differ from people to people.

To explain trust-based factors, we focused on formal institutions in the host country. These are the sense of “trust” caused by the host country’s formal institutions such as stable inclusive political and economic institutions, well-established institutions such as health and education, and the last one is well-defined working and living conditions. These formal institutions are accepted as attractive pull factors for potential migrants.

The last one is hope-based pull factors. This one is occurred because of the hope for a better life. The first one is freedom, and it means zero level religious, sexual, and ethnic pressure on people. Social network is another hope-based factor because everybody needs someone’s help who knows everything through his/her experiences. With the help of social networks, potential migrants feel secure.

## CONCLUSION

This thesis aims to extend a plausible explanation to the question of "are formal and informal institutions affect brain drain?". There is currently no response to this question in the literature. Various authors have studied the causes of the brain drain. However, this study has been created because there is no study explaining the causes of brain drain in an institutional framework. The literature focuses on what brain drain is, rather than on the causes. In order to close this gap, institutional economics used in this study, and the formal and informal institution definitions of institutional economics and the factors that cause brain drain examined. Therefore, this research presents a different argument than the dominant approach in the literature. Formal and informal institutions are the leading causes of brain drain by directly influencing the decisions of highly skilled people.

Are formal and informal institutions affect brain drain? The question was asked, and the following answers were found. The society we live in consists of many rules and norms. Institutional economics has examined these rules and norms under two headings. They described institutions as a structure that directly contributes to the excellent functioning and proper management of society. Other essential concepts that institutional economics brings to our literature; formal rules and informal norms. Institutions affect everything as well as individuals' decisions directly. Formal institutions are a set of rules that organize the daily life of people. Because of the brain drain, we can say that there is a conflict in the home country's institutional structure that affects highly qualified people. This conflict shows us that formal institutions do not make life easy enough. It would not be wrong to say that institutions in the original country make life difficult.

On the other hand, even though informal norms do not seem to affect our lives directly, they are actually at the center of our lives. From the day we were born, we begin to live with an invisible wall around us with the impact of specific traditions, culture, customs, moral values, habits of thought, and religious beliefs. This wall affects our mindset, our interpretation of life, and the process of discovering ourselves. It is precisely for these reasons that it would be correct to say that the home country institutions pushed highly skilled people into migration.

On the other hand, due to the structure of the formal institutions in the host country, which helps human life, highly skilled people migrate to such countries instead of staying in their home countries. The situation we are talking about here is due to the pull factors of the host countries. It would be better to consider the institutions of the host countries as respectful and well-defined. One of the pull factors correlated to informal norms is the reasons why such institutions are preferred by high skilled labor because they have a structure that respects the freedoms and preferences of individuals and does not try to limit them to a suffocating philosophy of religion.

In short, formal, and informal institutions are a set of rules and norms that affect people's movements, dreams, and futures. Highly skilled people prefer to live with a sense of trust and hope rather than living with fear and anxiety. In this case, it is very normal for the brain drain to be affected by the institutions. We can summarize the home country's fearful formal institutions as the inadequate control mechanism and the imbalance in economic/political institutions. The informal institutions, which is consisted of the home country, causing the push factors, can be change from people to people. These can be freedom restriction, oppression, gender inequalities, sympathy for other countries, and curiosity. On the other hand, we can summarize the pull factors of the host country as follows, and informal institutions can be listed as respect for freedoms and predictability of the future. Formal institutions, on the other hand, can be summarized as the existence of stable economic and political institutions and good education.

Many of the articles and many variables related to brain drain were presented to the reader in this process. Articles written by different researchers gave us the opportunity to study brain drain in depth. Since the first part, we have been trying to examine brain drain from many sides. In the first part, with the help of the brain drain literature, it is tried to be impartially given to the reader, whether it is loss or gain for the home and host country. Besides, brain drain was examined through human capital and economic development. However, no absolute conclusion has been made. Because the concept of economic development has different meanings for each country, in short, it would not be realistic to produce a definitive conclusion. When we analyzed the brain drain in terms of human capital, we saw that there are different ideas in the literature. The results of brain drain have been examined in terms of human capital and

economic development. As a result of all this study, we can say that we cannot find a common idea in the literature on whether brain drain is lost or earning for the sending or receiving country. The reason we cannot express it precisely is the low number of country-based researches. Because every country has its own dynamics and it will not be correct to reach a general conclusion with the information available in the literature. We can say that the survey questions of the current research are insufficient. In the second part, the institutional economics literature is examined. The importance of institutions is discussed in this section. There is an important question that aims to understand why some states manage to succeed in economic development while other states are quite unsuccessful in doing so. The reasons are occurred because of institutions. This section focuses on formal and informal institutions. These concepts are taken from the perspective of old and new institutional economics. The main reason is that they can provide a basis for interpreting the causes of brain drain. In doing so, we adhered to the old and new institutional economics thoughts.

In this research, formal institutions explained through new institutional economics way of thinking; Informal institutions, on the other hand, were accepted as part of Veblen's thought habits, instincts, and evolutionary discourses. For this reason, the push and pull informal reasons outlined in the last section are examined through the old institutional economics. The formal institutional causes are examined with the new institutional economics. Reasons of brain drain tried to be examined through the institutions. In the last chapter that formal and informal institutions coming to light with the help of human-specific emotions. These were fear, anxiety, trust and hope. After our in-depth investigations, we can say that people migrate for many reasons, and these are directly caused by the formal and informal institutions of the home and host countries.

The contribution of this study to the literature has been in two ways. The first contribution is the “consequences of brain drain” given in many perspectives at the end of the first chapter. The positive and negative effects of brain drain on home and host countries are systematically given to the reader. The positive or negative effects of brain drain are explained by considering the sending and receiving countries. There is no consensus because the dynamics and institutional structures of each country are very different. The second contribution of the study was to examine the causes of brain

drain in an institutional framework. It has been understood that people may have a greater desire to achieve money or better living conditions. Moreover, it would be far from reality to think that a structure with a complex and diverse thought behavior like a human could migrate for such simple reasons. The causes of brain drain have been examined through formal and informal institutions. There is no other study in the literature examining the causes of brain drain in terms of institutional economics. Concepts that may lead to brain drain have been analyzed through formal and informal institutions, divided into two. To answer the question of why this discussion is essential, another aim of this research's departure is to push readers and policymakers to think in many ways. This study has shown that the brain drain is a crucial sociopolitical subject worth examining. There is information available to support decision-makers' attitudes towards preventing or encouraging brain drain. In short, it is an answer to these two questions. In terms of the sending country, whatever factors we eliminate, brain drain decreases or increases. In terms of the receiving country, whatever factors we increase, we can get more qualified immigrants or prevent them from coming to the country.

To mention the limitations of this study, we can say that due to a lack of data and information in the literature, institutional results after brain drain could not be explained. The emergence of the brain drain results will be critical in making a comprehensive institutional analysis of brain drain. Because there are some changes in the institutional structure in both home and host countries, as a result of the brain drain, some institutions are being destroyed while others are being built. In the newly created institutional structure, the role of highly skilled migrants is vital. As can be understood from here, either institution emerges naturally, or the public and private sectors create new institutions. Migrants can easily influence the informal institutions in the host country. In this effect, the culture, customs, traditions, and lifestyles that migrants take with them have a significant share. In the same way, formal institutions can be summarized as follows; as a result of the increasing population, places of worship, prisons, courts, schools may be inadequate. This situation brings some changes in the host country. On the other hand, two similar results may occur in the sending country. The first result ends with policymakers noticing the situation and making institutional improvements to reduce migration. Another result is that they do

not take responsibility and leave institutions to their natural flow. Finally, we should state that institutional analysis of the brain drain results is a subject that needs to be considered and questioned.

Due to the difference between migration and high skilled migration, the consequences of brain drain in home and host countries are much more critical. Because of the migrant people are highly skilled, well educated, and qualified people, this situation makes the brain drain remarkable. For this reason, we think that the new institutional structure that emerged in home and host countries after brain drain is worth examining.



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