



# Higher EMU labour mobility at risk

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**Author**  
Heiko Peters  
+ 49 69 910-21548  
heiko.peters@db.com

Mark Roller

**Editor**  
Stefan Schneider

Deutsche Bank AG  
Deutsche Bank Research  
Frankfurt am Main  
Germany  
E-mail: marketing.dbr@db.com  
Fax: +49 69 910-31877

[www.dbresearch.com](http://www.dbresearch.com)

**DB Research Management**  
Ralf Hoffmann

ECB monetary policy suffers from structural economic divergences. The Euro's irreversibility was questioned at the peak of the EMU debt crisis, but the rescue packages and especially the swift actions of the ECB held the EMU together. The effectiveness of ECB monetary policy, however, suffers from the structural economic divergences across member countries and slow correction of these structural gaps (fig. 2-4).

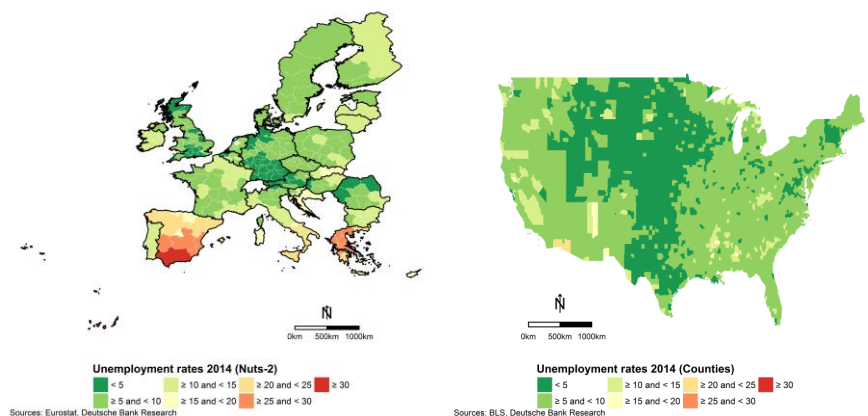
Labour mobility is a crucial criterion according to Optimum Currency Area theory. Given the importance of the labour market and the extremely strong divergence (fig. 5-9), we analyse if labour mobility has serviced as an adjustment channel for EMU.

EMU labour mobility relatively low vs the US, but increased since crisis-start. Our analysis shows that geographical mobility remains relatively low in EMU vs the US. The good news is, however, that EMU mobility was far higher in the post-crisis period and increased 15% since the start of the crisis (fig. 18). The shift in migration flows were dominated by higher inflows to Germany. Regressions confirm that the welfare gap and particularly the unemployment gap are the major drivers of migration.

Enhancing labour mobility is one of EU Commission's key new initiatives 2016. The planned actions will probably be only half-hearted. Higher on the political agenda is currently the refugee crisis.

Refugees and non-EMU labour migration put higher EMU mobility at risk. The increased competition caused by the jump of migration from non-EMU countries will probably put the increased EMU labour mobility at risk, which was dominated by the shift of flows in the direction of Germany as EMU's stability anchor since the start of the crisis.

Level and dispersion of unemployment rates higher in the Eurozone vs the US



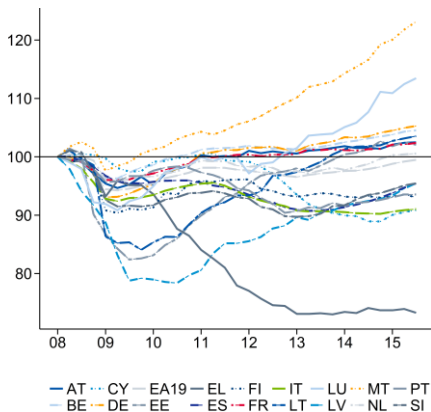


## Higher EMU labour mobility at risk

### Economic divergence

1

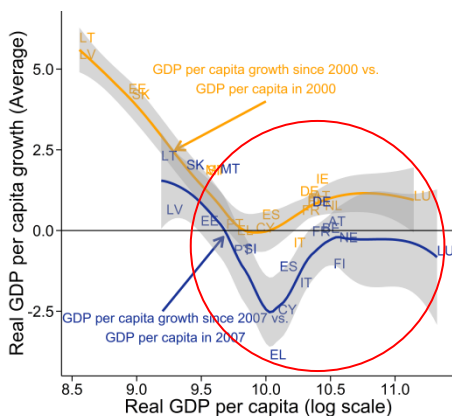
Index 2008 Q1=100 (real GDP, swda)



Sources: Eurostat, Deutsche Bank Reserach

### EMU beta-convergence driven by Eastern EMU countries

2

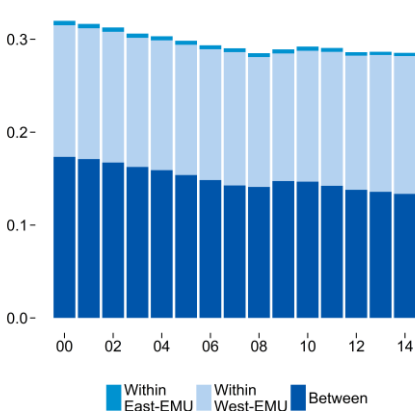


Sources: Eurostat, Deutsche Bank Reserach

### EMU sigma convergence driven by East-EMU

3

Gini coef. decomposition of GDP per head



Sources: Eurostat, Deutsche Bank Reserach

## Higher EMU labour mobility at risk

The significant economic divergence emerging since the start of the economic and financial crisis highlights that the introduction of the Euro was perhaps more politically driven and not sufficiently based on economic fundamentals. It was hoped initially that the necessary stability of the monetary union would be reached by an endogenous synchronisation of the business cycles of EMU member states, strict fiscal discipline of the individual countries via fulfilling the Maastricht Criteria, a swift, ongoing implementation of structural reforms and/or adjustment channels between EMU member states via e.g. fiscal and financial integration and/or labour mobility. With these adjustment channels in place, asymmetric and symmetric shocks to the EMU could be absorbed. Thus, the ECB could employ its full monetary policy arsenal to absorb symmetric shocks.

However, things turned out not to be so rosy. The global financial crisis and the debt crisis in the Eurozone that began in October 2009 with the Greek debt saga have brought to light the fundamentally weak foundation of the Eurozone. The strong political will to hold the monetary union together, the quickly implemented guarantee mechanisms in the course of the crisis and, foremost, the decisive actions by the ECB provided just the necessary cohesion to hold the Eurozone together. The lack of the implementation of far-reaching competitiveness-enhancing supply-side reforms in recent years caused probably a creeping deterioration of EMU price competitiveness, putting dark clouds over the region's long-term outlook.

### Economic convergence did not materialize as hoped for

Prosperity levels between EMU member states have converged, according to GDP per head. This can be examined in two ways. We differentiate between i) the absolute convergence (beta) and ii) the relative convergence (sigma).

- Beta-convergence analysis shows whether the poorer regions are catching-up. This is exhibited by a downward sloping relationship between GDP per capita growth and GDP per capita – that is, poorer countries growing more quickly. Both pre- and post-2007, the euro area member states broadly exhibit this relationship, but only because of the Eastern European member states. Excluding the latter, which are congregated on the left side of both the pre- and post-2007 curves, the relationship is flat or even positive. This implies a lack of convergence, if not divergence, with Germany the clear outperformer (figure 2).

- Sigma-convergence indicates how the differences between all the regions change over time.<sup>1</sup> It exists if the per capita GDP levels among the EMU countries gradually converge. Therefore, convergence occurs if the used inequality metric – we choose the gini coefficient<sup>2</sup> – falls over time. To gain insights into the drivers of inequality, we decompose the gini coefficient into within- and between-groups contributions.<sup>3</sup> The groups we consider are core, semi-core and periphery.

As for beta-convergence, the moderate EMU sigma-convergence is driven by Eastern European countries. The subdivision into inequality between

<sup>1</sup> Both convergence concepts are closely correlated. Under formal aspects, beta-convergence is a necessary, but not sufficient, condition for sigma-convergence.

<sup>2</sup> See for a discussion of other inequality measures Monfort, P. (2008). Convergence of EU regions. Measures and evolution. European Union Regional Policy. Working papers No 01/2008.

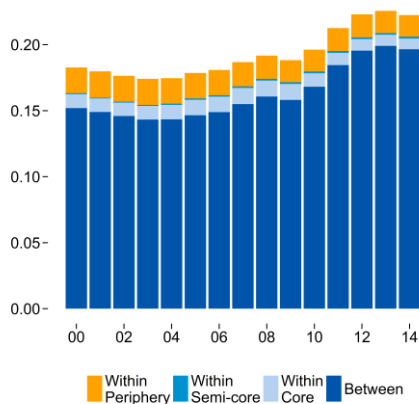
<sup>3</sup> See also Elbers C. et al. (2005). Re-Interpreting Sub-Group Inequality Decompositions. World Bank Policy Research Working Paper 3687; Bhattacharya N., Mahalanobis B. (1967). Regional disparities in household consumption in India. Journal of the American Statistical Association, 62 (317), pp. 143-161.



## Higher EMU labour mobility at risk

EMU core and non-core drifting apart 4

Gini coef. decomposition of GDP per head



Core: DE, AT, FI, NL; Semi-core: FR, BE; Periphery: ES, EL, PT, IT  
Sources: Eurostat, Deutsche Bank Research

EMU's core, semi-core and periphery as well as within the respective groups reveals that EMU countries are drifting apart, especially due to the increase of the between-group component. In the pre-crisis period the GDP per capita differences between the groups were roughly stable.

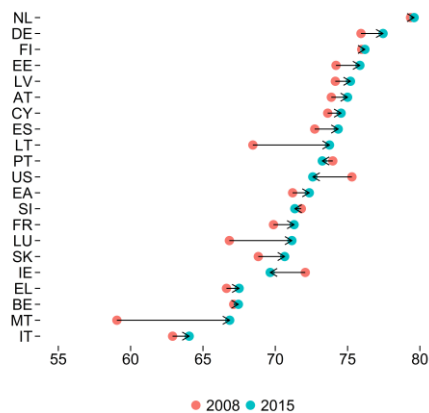
Summing up, beta- and sigma- convergence among EMU countries is driven by Eastern European countries catching up. Excluding these countries, EMU countries are drifting apart.

### Strong divergence of labour markets is a signal of low EMU labour mobility

As a consequence of the economic divergence among EMU countries, the labour markets moved apart with unemployment rates jumping to alarmingly high levels especially in Spain and Greece and falling to new multi-year lows in Germany. The number of unemployed in EMU peaked at 19.3 million persons or 12.1% in May 2013 (+8.0 million persons since March 2008). Boosted by mainly temporary factors (e.g. oil, exchange rate), the moderate EMU recovery pushed the unemployment rate slightly down to 10.5%. More than half of the unemployed – or about 8.5 million persons – are long-term unemployed and their re-integration into the labour market will be extremely challenging. The share of long-term unemployed increased more than 10%-points since 2008.

Contrary to the US, EMU participation rates rose since 2008 5

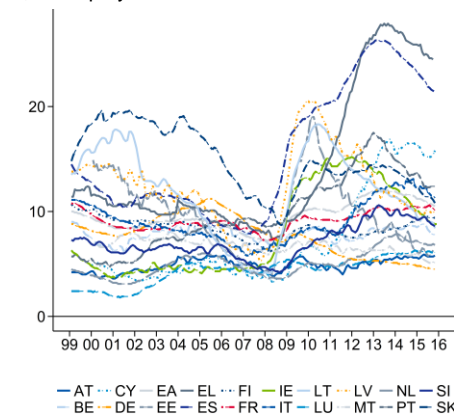
Workforce as % of population aged 15-64



Sources: Eurostat, Deutsche Bank Research

Strong divergence of EMU unemployment rates 6

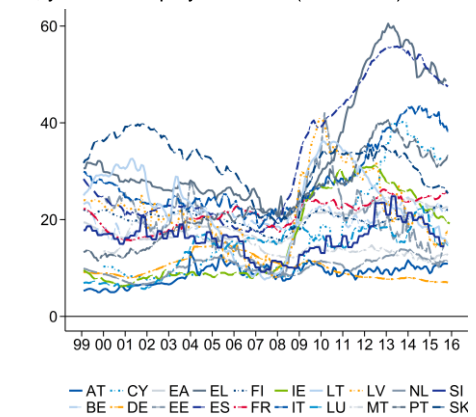
% , unemployment rate



Sources: Eurostat, Deutsche Bank Research

Youth hit the hardest by bleak labour market situation 7

% , youth unemployment rate (under 25s)



Sources: Eurostat, Deutsche Bank Research

This development strongly contrasts with the development in the US. The unemployment rate reached its peak of around 10% end-2009 – roughly the EMU rate, but halved since then, driving the difference between the US and EMU to almost 6%-points. Note that comparing the unemployment rate exaggerates the deviation due to the diverging changes in the labour market participation rates.

Contrary to the increase of the participation rate in EMU, it declined in the US since 2008 and hovers currently around its lowest level since the late 1970s due to intertwined cyclical forces and long-term trends as the aging of the population, later retirement, extended schooling among the young, disability and a higher share of prime-age workers saying they don't want a job.<sup>4</sup> Furthermore, the population dynamics differ substantially between the US and EMU with a

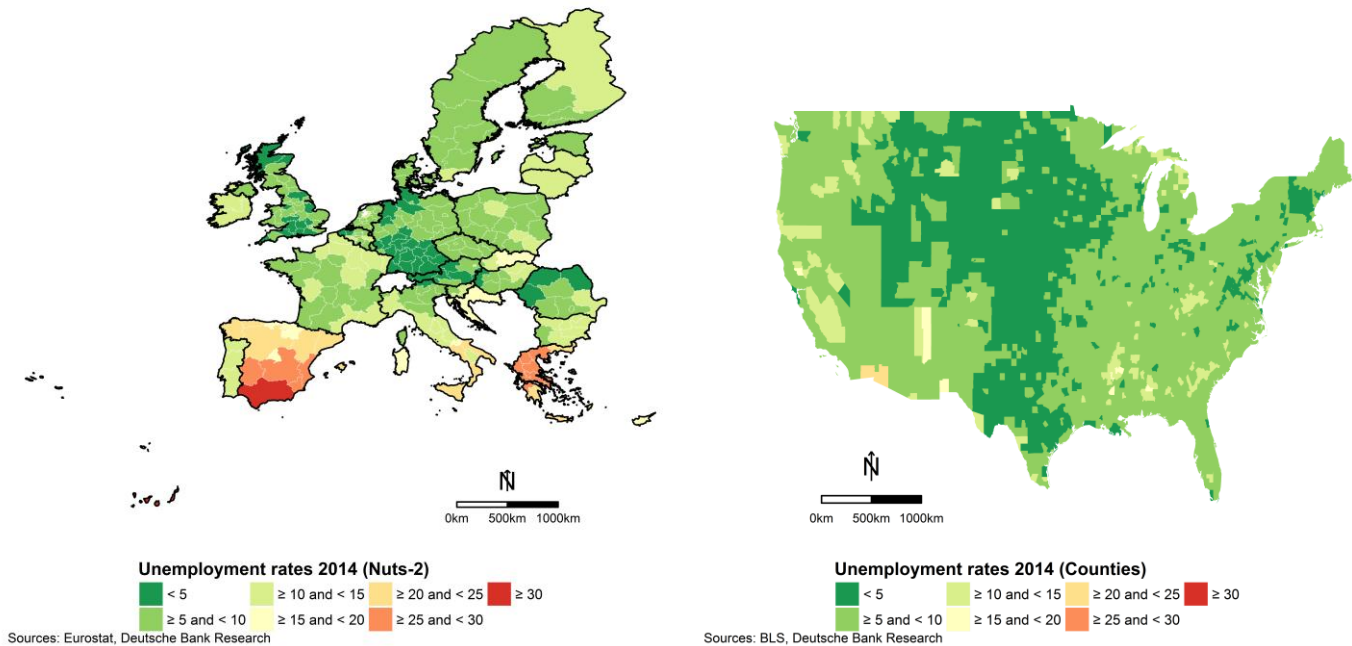
<sup>4</sup> See Federal Reserve Bank of Atlanta Working, Labor Force Participation Dynamics. <https://www.frbatlanta.org/chcs/LaborForceParticipation.aspx#SectionSix>



## Higher EMU labour mobility at risk

Level and dispersion of unemployment rates higher in the Eurozone vs the US

8



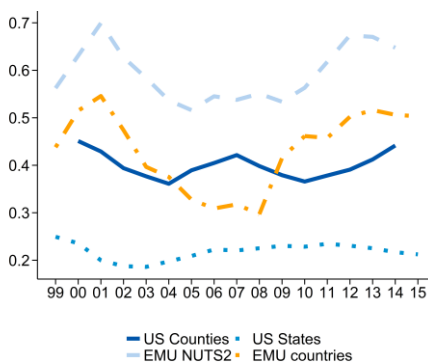
roughly constant population aged 15-74 in EMU and a growing population in the US (~6% since 2008).

Calculating hypothetically at which level the unemployment rate in the US would have been if the participation rate increased in line with the one in EMU between 2008 and 2014 and, assuming that the additional active population would have solely increased unemployment, reveals an unemployment rate in the US of about 11½% in 2014 – similar to EMU’s unemployment rate – instead of the actual 6.2%. Note that this comparison is based on extreme assumptions, but puts the EMU performance into context.

### Unemployment rate dispersion higher in EMU vs US

9

Coefficient of variation



Nevertheless, the ongoing elevated unemployment rates in EMU in combination with the very persistent regional dispersion of unemployment rates between the EMU and the US (figure 9) are first hints at low EMU labour mobility being a missing adjustment mechanism within EMU. Labour mobility is one of the crucial criteria of the Optimum Currency Area theory (OCA), which assesses how well a monetary union is based on economic fundamentals.

### Guideline for the functioning of a monetary union: Optimum Currency Area theory

More than 50 years ago, Robert Mundell, who was awarded the 1999 Nobel Prize "for his analysis of monetary and fiscal policy under different exchange rate regimes and his analysis of optimum currency areas"<sup>5</sup>, published the influential article "A Theory of Optimum Currency Areas" where he developed the first analytical framework dealing with the preconditions for a smoothly functioning monetary union.<sup>6</sup>

OCA represents the standard workhorse tool that allows the calculation of the costs and benefits of entering into a single currency area. The benefits of monetary union increase with its geographical size – as long as macroeconomic

<sup>5</sup> See Mundell, R. A. Facts. Nobelprize.org. Nobel Media AB 2014. Web. 6 Jan 2016. [http://www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/1999/mundell-facts.html](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1999/mundell-facts.html).  
<sup>6</sup> Mundell, R. A. (1961). A Theory of Optimum Currency Areas. The American Economic Review, 51, pp. 657-665.





## Higher EMU labour mobility at risk

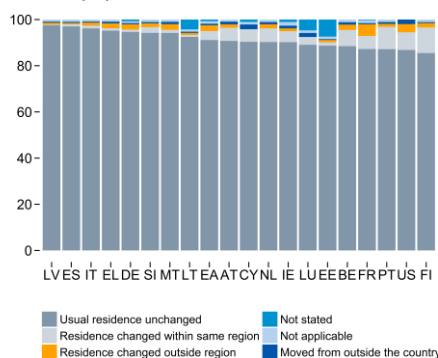
shocks are absorbed efficiently. In case the currency area becomes too heterogeneous, though, serious problems might emerge from asymmetric shocks to some of its members, as individual monetary policy will no longer be available. Asymmetric shocks to a monetary union can be absorbed via several adjustment channels and, therefore, guarantee the long-lasting stability of the monetary union. These can be classified into the traditional (mobility of the factors of production; in particular labour mobility as highlighted by Mundell, flexibility of wages and prices<sup>7</sup>, degree of openness, diversification, fiscal transfers, type of shock) and modern OCA criteria (capital mobility, business cycle synchronisation, price stability, fiscal policy and political objectives).<sup>8</sup> Note that there are endogeneity issues.<sup>9</sup> Thus, initially very heterogeneous countries could become more homogenous across time, e.g. via increasing intensity of trade, taking steps to economic integration, and, therefore, fulfilling not ex-ante, but ex-post the OCA criteria. This was hoped for before the introduction of the Euro.

There were also very early warnings that inflation rates would not converge rapidly among EMU members causing inherent instabilities. High inflation rates in peripheral countries, in combination with a single level of nominal interest rates, would result in too low real interest rates in the peripheral countries causing an unsustainable consumption/investment boom or public lending.<sup>10</sup> It turned out that the early warnings were justified. The lowered borrowing costs caused booms in construction spending – e.g. Ireland, Spain –, consumption spending – e.g. Portugal – and government spending – e.g. Greece. These booms were financed largely by capital flows from the core to the periphery. The questioning of the sustainability of the booms in 2009/2010 stopped the capital flows abruptly, causing major cracks in the EMU foundation.<sup>11</sup>

Geographical mobility in EMU vs US

10

% of total population, 2011



Sources: Eurostat, U.S. Census Bureau, Deutsche Bank Research

Given the economic and social importance of the labour market and the significant divergence among EMU member states, we will concentrate in the following analysis on the question if labour mobility as a crucial OCA criterion can serve as a suitable adjustment channel.

Due to the lack of availability of a harmonized large-scale micro data-set of cross-region/border-bilateral flows of the working-age population within EMU, we have to find proxy measures for labour mobility. The above mentioned simple comparison of unemployment rates points to low labour mobility in EMU. We are using (when possible) a comparison across time and the US as a stable, long-lasting monetary union as benchmark to evaluate the degree of labour mobility.

### Within country labour mobility relatively high in EMU

High mobility of workers within or between each of EMU's member countries can absorb country specific shocks. Thus, a direct measure would be the residence change to another region within a country or to a region in another

<sup>7</sup> Given the high degree of downward wage (price) rigidity in European countries, internal devaluations to restore price competitiveness as an alternative to the missing exchange rate adjustment channel are virtually nonexistent to deal with a balance-of-payment crisis. See Beissinger, T; Knoppik, C. (2009). Downward nominal wage rigidity in Europe: an analysis of European micro data from the ECHP 1994–2001. *Empirical Economics*. May 2009. 36(2), pp. 321-338. Babecky, J. et al. (2009). Downward nominal and real Wage rigidity. ECB Working Paper no. 1105. November 2009.

<sup>8</sup> Peters, H. (2006). Theorie optimaler Währungsräume vor dem Hintergrund der EU-Erweiterung. *List-Forum für Wirtschafts- und Finanzpolitik* 32 (3), pp. 214-238.

<sup>9</sup> Frankel, J. A.; Rose, A. K. (1998). The Endogeneity of the Optimum Currency Area Criteria. *The Economic Journal*, 108 (449), pp. 1009-1025.

<sup>10</sup> Walters, A. A. (1990). *Sterling in Danger: Economic Consequences of Fixed Exchange Rates*. Fontana Press.

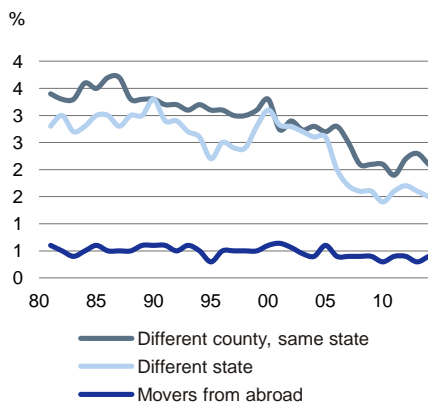
<sup>11</sup> Eichengreen, B. (2014). *The eurozone crisis: the theory of optimum currency areas bites back*. Notenstein Academy White Paper Series.



## Higher EMU labour mobility at risk

US geographical mobility trending down

11

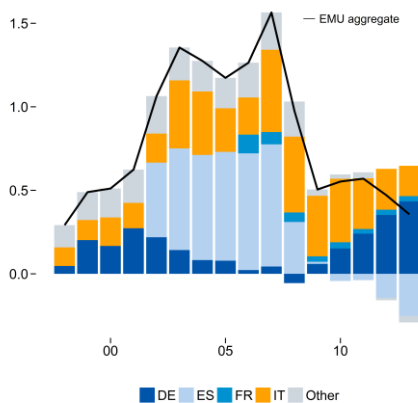


Sources: US Census Bureau, Deutsche Bank Research

Net migration pattern changed significantly in EMU

12

Million persons

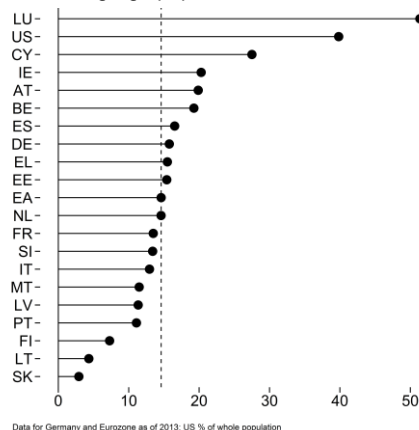


EMU aggregate is the sum of available net migration country data  
Sources: Eurostat, Deutsche Bank Research

Share of foreign born working-age population

13

% of working-age population, 2014



Data for Germany and Eurozone as of 2013; US % of whole population  
Sources: Eurostat, U.S. Census Bureau, Deutsche Bank Research

country. The 2011 European census provides regional data for 2011, but not across time. The share of non-movers was significantly higher in EMU compared to the US (91% vs 87%). While regional mobility within an EMU country/US state was somewhat higher in EMU vs the US (2½% vs 1½%), mobility between EMU countries/US states was far lower in EMU vs the US (0.7% vs 2%).<sup>12</sup> However, with the European census data it is not possible to differentiate between movements from other EMU countries and non-EMU countries and, therefore, this measure does not provide further insights into mobility between EMU states.

For the US, this census data is available for decades. It shows that regional mobility is on a downward trend since the 1980s.<sup>13</sup> The literature points to several factors explaining the fallen mobility: gains of changing the employer decreased over time<sup>14</sup>, high home-ownership<sup>15</sup>, declining mobility between 1999 and 2009 due to direct effects of the economic crisis (60%), demographic changes (20%) and increased rootedness (20%)<sup>16</sup>.

## Labour market divergence changed net migration pattern

Now we will focus on aggregated migration data to gain more insights into the pattern of EMU cross country movements. As expected, the strong divergence on EMU labour markets changed net migration patterns significantly. The clearest examples are the developments in Spain and Germany. When the construction boom-related high labour demand in Spain attracted foreign workers in particular from non-EMU countries, net migration to Spain reached a cumulative 4.1 million between 2002 and 2008. This ended abruptly with the bursting of the property bubble and net migration turned negative in 2010. In contrast, the solid development of the German economy with its healthy labour market performance highlighted by labour demand moving from peak to peak in recent years, net migration to Germany increased significantly since 2010.

On an EMU aggregated level, net migration fell significantly since the start of the debt crisis, but remained positive in particular due to net inflows to Germany. The jump of the refugee influx to Europe increased net migration significantly in 2014/2015 and will probably remain high in the coming years. More than 1 million refugees entered Germany in 2015 alone. Compared to the US, however, the stock of foreign born workers is relatively low. EMU net-migration is also mainly driven by net migration from non-EMU countries. This can be seen by the relatively low average share of moving foreigners with a citizenship of another EMU country (figure 14). On average, more than 80% of the workers with a foreign citizenship came from a non-EMU country.

<sup>12</sup> Note that there are differences in the definition of regional units. Population thresholds for EU's NUTS 3 regions are 150k and 800k. See Eurostat (2015). Regions in the European Union, Nomenclature of territorial units for statistics. In the US counties are the units of local government and administration within the US states and territories. Average population ranges from 48k to 8.1m in 2014. See U.S. Department of Commerce (1994). Geographic Areas Reference Manual.

<sup>13</sup> Note that the sharp mobility fall after 2006 might be attributed to a change of handling missing data. Accounting for this, one can see a smooth downward trend between 1996 and 2010. See Kaplan, G., Schullhofer-Wohl, S. (2011). Interstate migration has fallen less than you think: consequences of hot deck imputation in the Current Population Survey. Fed of Minneapolis Working Paper No. 681.

<sup>14</sup> Molloy, R. et al. (2014). Declining migration within the US: the role of the labor market. NBER Working Paper No. 20065; Molloy, R. et al. (2011). Internal migration in the United States. Journal of Economic Perspectives, 25(3), pp. 173-196.

<sup>15</sup> Blanchflower, D. G., Oswald, A. J. (2013). Does High Home-Ownership Impair the Labor Market? NBER Working Paper No. 19079.

<sup>16</sup> Cooke, T. J. (2011). It is not just the economy: declining migration and the rise of secular rootedness. Population, Space and Place, 17(3), pp. 193-203.

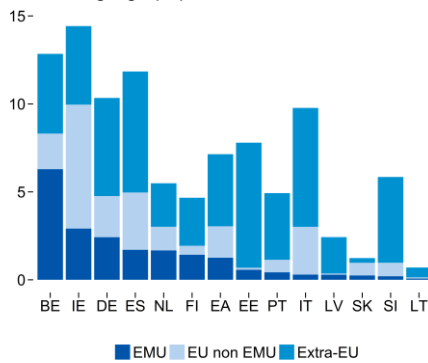


## Higher EMU labour mobility at risk

EMU net migration mainly driven by non-EMU

14

% of working-age population, 2014



Sources: Eurostat, Deutsche Bank Research

## Bilateral EMU net migration flows so far on a relatively low level, ...

While aggregated migration patterns changed significantly, we will now focus on bilateral migration data to analyse if this is driven by a changed pattern of EMU flows or by non-EMU migration flows. Bilateral migration data confirm that labour movements between European states are dominated by the flows from Eastern European countries to the West mainly driven by the prospect of significantly higher living standards. While, during the times of the economic boom in e.g. Spain and the United Kingdom, the largest flows from the East to the West were drawn into these countries, these flows shifted in particular to Germany since the start of the EMU crisis.

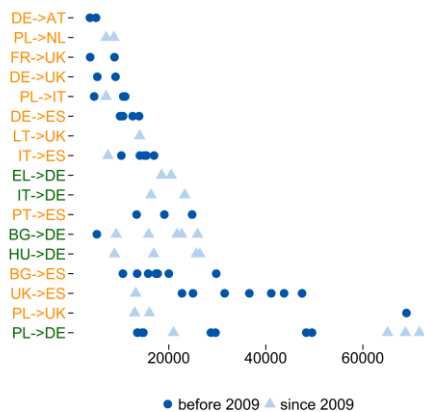
Despite the significant worsening of the labour markets in some EMU countries and the strong labour market divergence (see above), the bilateral migration flows between EMU member states – even between the Big-4 countries – remained far below the East-West flows. Comparing the largest bilateral flows pre- and post-crisis shows again that prior to the crisis within EMU bilateral flows were driven by Spain as the main destination country and post-crisis Germany dominates as the major destination country.

However, given the still challenging outlook on the labour market, especially for the millions of long-term unemployed, and the persistent, high unemployment rates in particular in Spain and Greece, the bilateral cross country net migration flows remain on a relatively low level with the highest net migration from Italy to Germany of about 25,000 in 2013 (figure 17).

EU bilateral migration flows driven by Eastern Europe

15

Persons, Top 5 flows each year, 2000-13

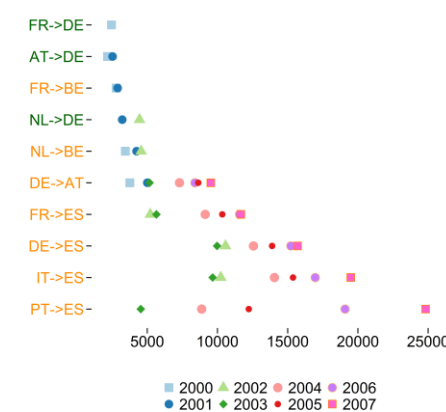


Sources: OECD, Deutsche Bank Research

Migration to Spain dominated pre crisis and ...

16

Persons, Top 5 flows each year

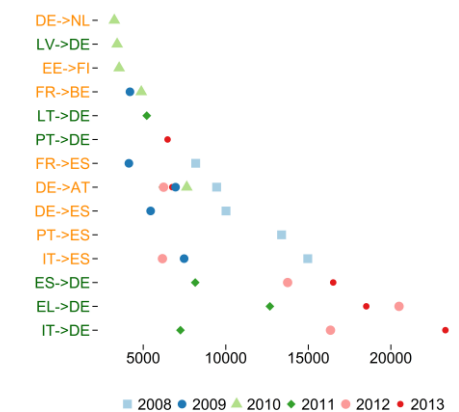


Sources: OECD, Deutsche Bank Research

... inflow to Germany dominated post crisis EMU flows

17

Persons, Top 5 flows each year



Sources: OECD, Deutsche Bank Research

## ... but labour mobility increased somewhat since the crisis

In the following, we will use a gravity model to analyse the determinants of EMU's bilateral migration flows and calculate a synthetic measure for labour mobility.<sup>17</sup> The main drivers of migration are typically welfare differences (GDP per head gap as a proxy) and an indicator for the diverging situation on the labour market (unemployment rate gap with a 1-year time-lag). As usual in gravity models, we add as a size variable the product of the population of the origin and destination country. Time constant drivers, as e.g. distance between the origin and destination country, cultural differences, common language and the initial migration stock as a measure for network effects, are captured by country fixed effects. Finally, we added time fixed effects that can be interpreted

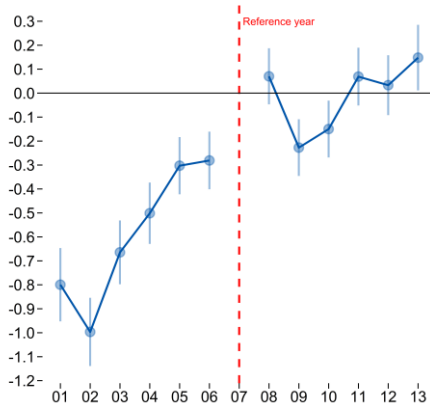
<sup>17</sup> See also EU Commission (2015). Labour Market and Wage Developments in Europe.



## Higher EMU labour mobility at risk

### Moderate increase of EMU labour mobility in recent years 18

Time fixed effects of bilateral migration flow regressions



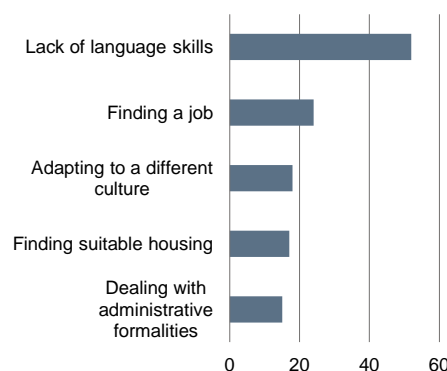
Vertical lines represent the 90% confidence interval  
Sources: OECD (International Migration Database), Deutsche Bank Research

as a measure for labour mobility within EMU as they capture the bilateral migration changes that are not explained by the other variables.<sup>18</sup>

The panel estimations yield some interesting insights:

- The coefficients for the welfare gap and the divergence on the labour market show the expected sign (figure 22). An increase of the GDP per head gap increases net migration from the poorer to the richer country and a widening of the unemployment rate pushes up movements to the country with the more favourable labour market situation.
- Splitting the sample into the pre-crisis and post-crisis period shows that in the pre-crisis period bilateral flows were driven by the welfare gap and the size of the countries. The unemployment rate gap did not play a significant role. In the post-crisis-sample, however, the unemployment rate became a decisive factor due to significant worsening of the labour market especially in the peripheral countries. It implies that workers saw the unemployment shock as long lasting. An increase of the unemployment gap by 1%-point pushed up the respective bilateral outflow from the country with the relative worsened labour market by 0.7%.
- Geographical mobility – as measured by the time fixed effects – between EMU countries remained on a historically high level since the start of the crisis. Labour mobility was 15% higher in 2013 compared to 2007 (0.15 points on the y-axis in figure 18).

### Top 5 practical difficulties when going to work abroad 19



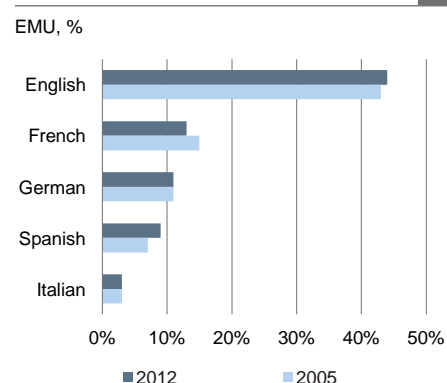
Eurozone (max 3 answers)

Source: Special Eurobarometer 337: Geographical and labour market mobility

Taken together, labour mobility between EMU countries as an internal adjustment channel remained relatively low compared to the US, but increased since the start of the crisis. The biggest challenge to work in another country is the lack of language skills (figure 20) and the main reasons for not working abroad are high hurdles to leave home/family/friends behind according to the Eurobarometer poll of EMU citizens. Going forward, the better language skills of the younger cohorts (figure 26) will slowly increase the average language abilities of EMU citizens' thereby increasing mobility. The share of persons saying they speak English well enough to be able to have a conversation increased already slightly between 2005 and 2012 to 44% (figure 20).

The higher mobility in the US can be explained by e.g. a common language, coordinated public administrations as well as less generous transfer payments in the US compared to EMU. Additionally, it does pay less to work in EMU relative to the US as a higher share of earnings is "taxed away" when taking on a job.

### Languages that you speak well enough in order to be able to have a conversation 20



Sources: Special Eurobarometer 243/386, Deutsche Bank Research

### Unemployment and welfare gap driver for bilateral EMU migration flows 21

Fixed effects regression	00-13	00-07	08-13
log(bilateral net migration flows) ~			
log(Population*Population)	-1.94***	0.93***	0.16
log(Unemployment rate gap, t-1)	0.52***	-0.08	0.70***
log(GDP per head gap)	-0.26	-0.66**	-2.23***
Time effects	yes	yes	yes
Country effects	yes	yes	yes
Adj. R <sup>2</sup>	0,14	0,08	0,17
Observations	1686	827	859

Asterisks \*, \*\*, \*\*\* denote significance at the 10%, 5% and 1% level respectively.

Sources: OECD (International Migration Database), Deutsche Bank Research

<sup>18</sup> We performed a Hausman test and, accordingly, a fixed-effects model is the preferred one. Additionally, we added time fixed effects as signaled by F-test and Breusch-Pagan test.

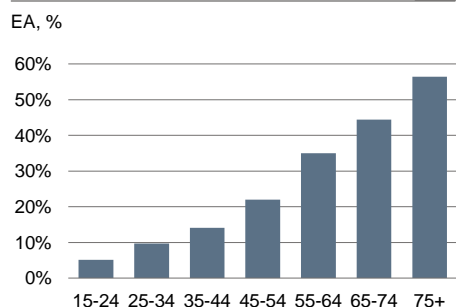




## Higher EMU labour mobility at risk

Respondents electing "You have never learned any language other than your mother tongue"

22



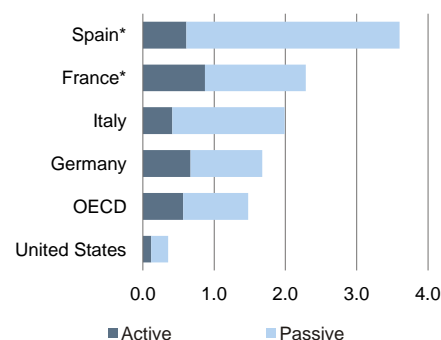
Latvia did not include respondents aged 75+

Sources: Special Eurobarometer 386, Eurostat, Deutsche Research

Public spending on labour market programmes higher in EMU vs US

23

% of GDP, 2013, \*2012

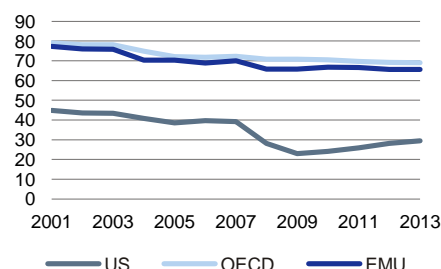


Sources: OECD, Deutsche Bank Research

Average Effective Tax Rates for a transition into full-time work

24

Persons without entitlement to unemployment insurance but entitled to social assistance; first earner in couple with 2 children: returning to work at 50% AW



Sources: OECD, Deutsche Bank Research

## Policy-makers increasingly focus on labour mobility, but actions are only half-hearted

The relatively low intra-EMU labour mobility was not hidden from European policy-makers. In particular, the divergence in the aftermath of the financial crisis led to a re-focus on labour mobility as a potential adjustment channel. As a key new initiative, it was already on the agenda of the EU Commission last year, but the publication of the labour mobility package, originally planned for 9th December 2015, was postponed. No concrete new announcement date was set yet – possibly due to the additional workload stemming from the handling of problems caused by terrorism and the refugee influx.<sup>19</sup> It is again one of the 23 key new initiatives of the EU Commission Work Programme in 2016.<sup>20</sup>

This package, aiming to intensify the movement of workers, will probably focus on three main pillars:<sup>21</sup>

- **Improving the coordination of social security systems.** This includes the portability of health-care, unemployment or family benefits and the cooperation of the various national agencies in this respect. For instance, according to EU law, persons falling into unemployment in one Member State are entitled to unemployment benefits taking into account all the years worked in any another Member State. However, the implementation of these regulations still lacks coherence and is subject to diverging interpretations among Member States.<sup>22</sup>
- **Reviewing the Posting of Workers Directive.** Implemented in 1996, this directive tried to harmonize the national rules for the posting of workers in one Member State who continue to be employed in another. This practice is still subject to large discrepancies, as was apparent from the discussions around the minimum wage in Germany and its application to passing through, non-German truck drivers.
- **Enhancing the European Employment Services (EURES).** This Europe-wide job searching platform is one of the most advertised initiatives tackling cross-border mobility in Europe. However, while already in existence since 1993 and having been substantially reformed in 2003, EURES is still said to be in its "start-up phase"<sup>23</sup> and is far from contributing significantly to the mobility of workers. With a funding of around EUR 20 m per year until 2020<sup>24</sup>, it remains at least questionable whether this will suffice to promote the platform to reach the desired impact.

Several other programmes were launched by the European institutions. Among the most famous of those is certainly the Erasmus+ programme, combining the former Erasmus, Socrates and Leonardo da Vinci initiatives to one, EUR 14.7 bn large programme.<sup>25</sup> This is aimed at giving young and old people the opportunity to gain academic, work and volunteer experience in another Member State. Next to this, the EURAXESS Researchers in Motion-programme

<sup>19</sup> See <http://www.mobilelabour.eu/5300/the-european-commission-has-postponed-the-announcement-of-the-labour-mobility-package-new-date-is-to-be-presented-next-year/>

<sup>20</sup> EU Commission (2015). No time for business as usual. Commission Work Programme 2016. COM(2015) 610 final.

<sup>21</sup> Speech by Commissioner Marianne Thyssen on Europe's Vision for Fair Labour Mobility. [http://europa.eu/rapid/press-release\\_SPEECH-15-6074\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-15-6074_en.htm)

<sup>22</sup> Briefing Implementation Appraisal. Coordination of Social Security Systems. European Parliament. 2015.

<sup>23</sup> Barslund, M., Busse, M. (2014). Too Much or Too Little Labour Mobility? State of Play and Policy Issues. *Intereconomics*, 49(3), pp. 116-123.

<sup>24</sup> Investing In People: EU Funding For Employment And Social Inclusion. European Commission. 2014.

<sup>25</sup> Part of the Europe 2020 campaign. The funding will be distributed between the seven years from 2014 to 2020.



## Higher EMU labour mobility at risk

### Mobility enhancing programmes in Europe 25

European Union	Yearly Budget (EUR m)
EURES	≈ 20
Erasmus Plus	≈ 2,100
EURAXESS Researchers in Motion	-
Cross-border programs between Member States	Parts of ESF (≈12,000)
Germany	
Placement budget	> 163
Mobi-ProEU/The Job of My Life	≈ 60
Italy	
Lavoro & Sviluppo	-

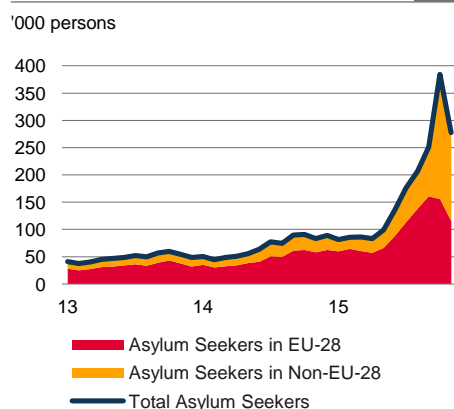
Sources: Federal Employment Agency, European Commission, Deutsche Bank Research

acts as a cross-border job-searching platform for academics, even though clearly running on a much smaller scale.

Apart from these broader European projects, many other initiatives are carried out on bilateral or purely national grounds, most of which are financed through the European Social Fund (ESF). This fund was established with the purpose of integrating more people into the European labour market and, ultimately, reducing the differences in prosperity across Europe. For the period 2014 until 2020, this fund allocates more than EUR 80 bn (≈EUR 12 bn per year) – or around 10% of the EU budget. Member States receive certain amounts based on various criteria and are free to choose on which projects these funds should be spent on. The most famous of these is probably the MobiPro-EU programme initiated by the German government and giving young EU residents the possibility of finding an apprenticeship position in Germany. This includes, amongst others, placement costs as well as language training in the home country prior to departure and receives around EUR 60 m per year from the ESF. Next to this, and also aiming at older applicants, on-the-job language courses are offered for migrants, fostering the integration of EU- and non-EU workers. These so called ESF-BAMF language courses receive around EUR 50 m per year out of the ESF budget. In France, for instance, the French Vista-programme supported disadvantaged young people from the peripheral Provence-Alpes-Côtes d'Azur region in gaining work experience abroad. This project was stopped in 2014, however, and it is rather difficult to find precise information on the reasons for the termination and the size of its funding. This weak availability on information is rather typical for most of these programmes and makes it hard to evaluate their true impact.

Finally, several governments also created national programmes to foster their internal mobility. This could be necessary in case of structurally different regions in the same country, with labour shortage in one- and excess supply in another region. In Italy, for instance, the Ministry of Labour and Social Policy funded the so-called Lavoro & Sviluppo programme, supporting young people from the four southern-most regions when looking for internships or jobs in other parts of the country<sup>26</sup>. This project was terminated last year and according to official estimates the desired goals were achieved. Additionally, the German employment agencies are entitled to pay certain allowances to applicants, as, e.g. moving expenses or the temporary assumption of rental costs in the course of a job-related relocation.<sup>27</sup> The funds directed to these initiatives are, however, all clearly limited and – because of no reliable data on their effectiveness – it is hard to evaluate the real potential of these programmes.

### ~60% of refugees fled to EU in 2015 so far 26



Source: UNHCR

These planned mobility enhancing measures on the national and EU-wide level would have the potential to strengthen labour mobility as an adjustment channel, but clearly lack the necessary budget for having a larger impact and are missing a strong cross-country as well as country-EU-interlocking.

## EMU labour migrants face new competition

The irreversibility of the Euro was questioned at the height of the EMU debt crisis due to the absence of adjustment channels to quickly absorb the massive country-specific shocks. Thus, the rescue packages (e.g. bilateral credits, EFSF, ESM) and especially the continued swift actions of the ECB held the EMU together. The effectiveness of ECB monetary policy, however, suffers from the structural economic divergences across member countries and slow structural adjustments as shown by the divergence (beta and sigma) when East-EMU countries are excluded (see figures 2-4). ECB president Mario Draghi points to

<sup>26</sup> Progetti Italialavoro: Lavoro & Sviluppo 4. see <http://www.italialavoro.it/wps/portal/l&s>

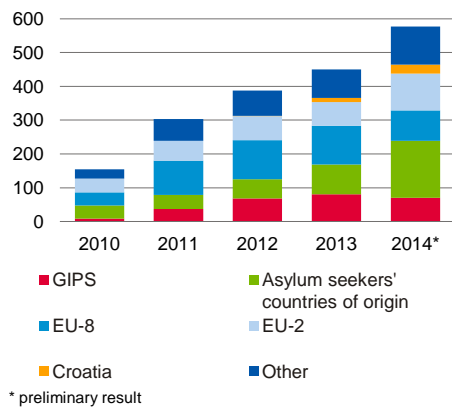
<sup>27</sup> See § 44 SGB III (German Social Security Code).



## Higher EMU labour mobility at risk

Immigration to Germany increasingly determined by asylum seekers

27

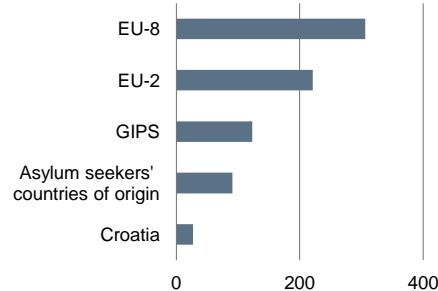


Sources: Federal Statistical Office, Deutsche Bank

German employment growth strongest for workers from EU-8

28

Germany employment change by nationality, 2015 vs 2011



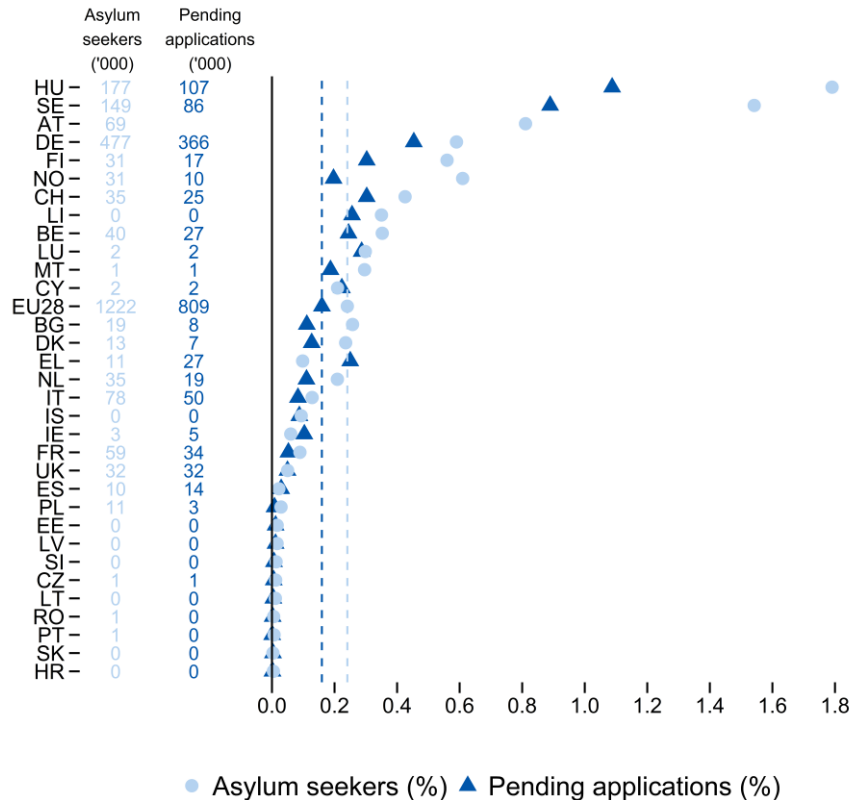
Sources: Federal Employment Agency, Deutsche Bank Research

the sluggish pace of implementation of structural reforms again and again. The EMU recovery that started mid-2013 remains fragile and vulnerable to these structural gaps. While it took the US economy 16 quarters to pass the pre-crisis peak, it is taking the euro area twice as long.

Refugee influx to Europe jumped in 2015

29

% of the respective total population, 2015, latest available data



Asylum applications: moving yearly sum 2015 (Jan to Sep-Dec);  
Asylum applications pending applications: latest available monthly stock (Sep. 2015)  
Sources: Eurostat, Deutsche Bank Research

Our analysis on labour mobility showed that mobility between EMU countries is relatively low compared to the US. EMU mobility was far higher in the post-crisis period compared to pre-crisis and increased significantly since 2007. In particular, the ongoing, pronounced variation of the labour market situation across EMU countries should remain a driving force of bilateral migration. The increased mobility provides some limited hope for the ECB.

Policy-makers increasingly focus on enhancing labour mobility as an adjustment channel, but the planned actions will probably only be half-hearted. The refugee crisis is currently higher on the political agenda as could be seen by the postponement of the publication of the Labour Mobility Package.

The refugee crisis creates political tensions as views across countries clash diametrically and the approaches of the EU to manage the refugee influx remain rudimentary. The established EU regulations for the registration and acceptance of asylum seekers vis-à-vis the Schengen system (Dublin III Regulation) have been increasingly called into question.<sup>28</sup> Some EU countries have fortified their borders with fences or reintroduced border controls to bordering Schengen countries. The direct negative effect on labour mobility caused by the increased cost of commuting should be relatively small. However, if new borders are a

<sup>28</sup> Bräuninger, D. et al. (2015). Influx of refugees: An opportunity for Germany. Standpunkt Deutschland. Deutsche Bank Research.



## Higher EMU labour mobility at risk

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physical manifestation of an EMU country's unwillingness to absorb migrants in general, this would have the potential to have a large negative effect.

The increased competition caused by the jump of migration from non-EMU countries will probably put the increased EMU labour mobility at risk, which was dominated by the shift of flows in the direction of Germany as EMU's stability anchor since the start of the crisis. Not only the refugee influx of more than 1 million persons in 2015, but, especially, the jump of labour migration from Eastern European non-EMU countries to Germany<sup>29</sup> makes it more difficult for workers from other EMU countries, especially from the peripheral countries, to find a job in Germany. Workers from other EMU countries are competing for the same jobs as refugees, particularly in the low-wage segment, and as workers from Eastern Europe – who are benefitting from their more advanced German and English language skills – especially for higher paid-jobs.

Heiko Peters (+49 69 910-21548, heiko.peters@db.com)  
Mark Roller

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<sup>29</sup> Full free movement of workers to Germany since 1 May 2011 for EU-8 (Poland, Hungary, Czech Republic, Slovenia, Slovakia, Estonia, Latvia, Lithuania). 1 January 2014 for EU-2 (Romania, Bulgaria) and 1 July 2015 for Croatia.