

## Building euro-zone competitiveness

## Mobile moans



It should be easier for unemployed Europeans to move in search of work. The latest in an occasional series

NEARLY a quarter of Spain's workforce—and roughly half of Spain's young people—have no jobs. Unemployment rates in Austria, Germany and the Netherlands, by contrast, are dramatically lower. When Americans are faced with depressed labour markets, many saddle up in search of work. But Europeans are far less likely to uproot, both within borders and, especially, across them (see chart).

There is an obvious reason for that: Europe's linguistic diversity. Language matters. In Canada, for example, mobility is much higher across the country as a whole than it is between French-speaking Quebec and the English-speaking provinces and territories. An analysis of European language borders, by Nicola Fuchs-Schündeln of Goethe University Frankfurt and Kevin Bartz of Harvard University, concludes that language hurdles are better predictors of low mobility than national borders. Europe's demography also counts. Migration does less good to older workers, who have fewer working years ahead of them in which to benefit from moving.

Such built-in barriers make the need to clear away other obstacles all the more important. In principle, migration across European Union borders, except Bulgaria's and Romania's, is as easy as migration within member states. In practice, residents face a pile of disincentives.

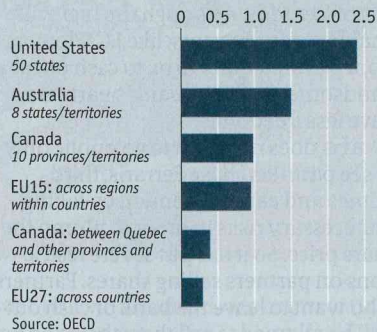
Tax and benefit policies that compress Europe's wage distribution are one of these. Income differentials gave East Europeans a very good reason to move to western Europe after the 2004 enlargement. But income gaps are much smaller within the euro zone. Generous severance packages and unemployment benefits also reduce the incentives to migrate. Peripheral governments are under pressure to rein in such benefits—Spain and Italy are trying to chip away at lavish severance pay, for instance—but opposition is fierce.

The housing market is another source of friction. Transaction fees and taxes for home-buyers are much higher in Europe than America, according to the OECD, a think-tank. Transaction costs are 10-15% of the price of a house in Greece, Italy and Spain, compared with roughly 5% in America. Renters are discouraged from moving by generous rent-control policies and public-housing programmes.

Research by Peter Rupert of the University of California at Santa Barbara and Etienne Wasmer of Sciences Po in Paris

## Repelling borders

Cross-border mobility, % of total population 2010 or latest



suggests that housing-market frictions may account for about half of the difference in mobility rates between Europe and America. The push for austerity across the euro zone may yield thinner public-housing subsidies: Spain has cut housing benefits in its latest austerity plan, for example. But budget problems may actually increase governments' reliance on property taxes, making it less likely they will be cut.

However persistent the European Commission's demands for uniform labour-market treatment of all EU citizens, the red tape between national labour markets remains frustratingly thick. For those who are employed, changing countries often endangers national pension-scheme rights. Workers may lose part of the value

of earned pension benefits or the right to continue accumulating generous benefits in their native country. And inconsistent application of laws on pension taxation means that residents run the risk of double taxation if they move. The commission routinely argues for greater pension portability. On April 18th it also called for exportability of national unemployment benefits. It may seem curious to ask indebted governments to pay citizens to live on the dole in another country, yet increased employment should eventually result, as those who move find work.

Professional qualifications act as a further barrier to movement across borders. EU law states that qualifications from one member state should be valid in another, but in practice recognition often requires negotiating a tangle of local rules. The OECD notes that just seven out of more than 800 professions identified by the commission qualified for automatic recognition of qualifications across borders. In 2011 the commission proposed simplifications to recognition procedures, including a European "professional card" that would summarise relevant professional information. Progress has been slow.

Hurdles are highest for workers within the public sector. Such jobs are still occasionally reserved solely for nationals, even outside "sensitive" sectors. In 2005 2.5% of British teachers were non-nationals. That compared with 0.7% in Portugal, 0.4% in Greece and too few to count in Italy.

Raising these numbers is not easy, of course, despite a reported jump in demand for German-language tuition in peripheral economies. Job-seeking Europeans will never be as footloose as their American counterparts. But the gap can be narrowed. The periphery may now be the main target of structural reform, but streamlining relevant rules in the core economies would do as much to help euro-zone citizens. ■



Off to join the Mittelstand