

# CEPS POLICY BRIEF



## Unblocking the Lifeline of Talent

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### Abstract

*Against the background of demographic decline and growing economic competitiveness from emerging economies, this Policy Brief looks into the potential benefits of increased intra-EU labour mobility. On the basis of an examination of the 'German case' on EU labour mobility. It proposes ideas on how to better foster a European fair deal on talent, one that would benefit the EU as a whole. It concludes with a proposal on how to increase the potential benefits of the freedom of movement.*

### Introduction

EU citizens' freedom of movement across national borders in the European Union is one of its fundamental principles. Cross-border labour mobility of EU nationals not only promotes European integration and social cohesion, but it also boosts the overall economic potential of the EU. The vision of borderless mobility for EU citizens, which has become a legal reality in the EU\*, was designed to build an economically robust and free European Union. Regarding the working-aged population, a pool of 'unbound' human capital has the potential to counteract economic imbalances through self-determined mobility of jobseekers to regions in which labour demand cannot be met locally.

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\* Bulgaria and Romania still face restrictions vis-à-vis some of the EU-25 member states which will be lifted in January 2014 while the same applies to newly acceded Croatia in 2015.

An economic space without mobility barriers is, in theory, good medicine for an EU that has large variations in unemployment and economic performance. But labour mobility within the EU is responding slowly to market forces. According to Eurostat and based on the European Labour Force Survey, in 2012, just 6.6 million workers in the EU27 were citizens from another EU member state. This equates to roughly 2% of the total working age population (15 to 64 year olds) and 1.3% of the overall population of the EU27 in 2012. Of the 15.2 million foreign citizens that worked in the EU27 in the same year and accounted for 7% of total employment, 6.6 million were intra-EU labour migrants. These intra-EU labour migrants represented 3% of total employment. Regardless of which comparison you make, the conclusion is the same: intra-EU labour mobility remains an exceptional case. The lack of intra-EU labour mobility has severe economic consequences. The European Council estimated the economic loss due to inactivity or

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unemployment of young people to be €153 billion in 2011, or roughly 1.2% of the EU's GDP.

Intra-EU labour mobility is expected to grow in the absence of legal barriers, driven by an increasingly cultural and linguistically versatile youth in search of unequally distributed, and constantly shifting life opportunities. Some corridors of advanced mobility are arising and defying the dominant aggregate tendency not to move to a foreign EU country. Yet when compared with the percentage of the aggregate international migrant population on the move, which is just over 3 percent of the world population, intra-EU mobility appears underwhelming, especially considering that the vast majority of international migrants must overcome legal barriers, face greater financial burdens to move, have fewer rights and protections upon arrival abroad and must often bridge vaster distances to live abroad. Hence unblocking the lifeline of intra-EU talent must go beyond the creation of a legal framework for free movement.

For a Union that rests on the principle of free movement, the EU has exhibited extremely contradictory 'body language' in making this concept a reality. EU member states have reacted to intra-EU mobility with varied openness in recent years. Germany began by limiting mobility and delaying it as much as regulation would allow. But the country has since evolved into a "willing hub" for mobile EU workers. The United Kingdom was a pioneer in opening its labour markets to intra-EU labour migrants. Yet it has since implemented rhetoric and explored policies to reverse its long-standing attractiveness as a destination for mobile EU workers, with its Prime Minister recently calling for mechanisms to limit EU mobility that is economically disadvantageous for countries of destination. Spain meanwhile has reversed its "polarity" in recent years regarding the flow of migrants, including mobile EU workers. It has gone from being a destination to becoming a source country for mobile EU labour. This has happened more or less involuntarily as the economic downturn, rather than policy has pulled and pushed vast population flows across Spanish borders and through its labour market.

Both the potential success and failure of enhanced intra-EU labour mobility has been a concern for policymakers. When EU mobility occurs, critics express concern for brain drain. When it does not occur enough to fill labour shortages in tune with business cycles, and at a scale to alleviate high unemployment levels in certain regions, critics express concern for brain waste. The aggregate ambivalence in the EU surrounding the fear of movement and the fear of non-movement must be resolved in social and political consensus, if EU mobility is to become a reality, strength and regional comparative advantage of the European Union.

Against the background of looming demographic decline, the baby boomer generation exits from European labour markets, and growing economic competitiveness from emerging economies, this Policy Brief looks into the potential of increased intra-EU labour mobility. This policy brief will examine the "German case" on EU labour mobility, digging below the surface of what aggregate data suggests is occurring in this regard. It proposes ideas on how to better foster a European fair deal on talent, one that would benefit the EU as a whole. It concludes with policy recommendations on how to increase the potential benefits of the freedom of movement for both individual EU citizens and for the EU as a whole.

## 1. Intra-EU labour mobility: the German bubble?

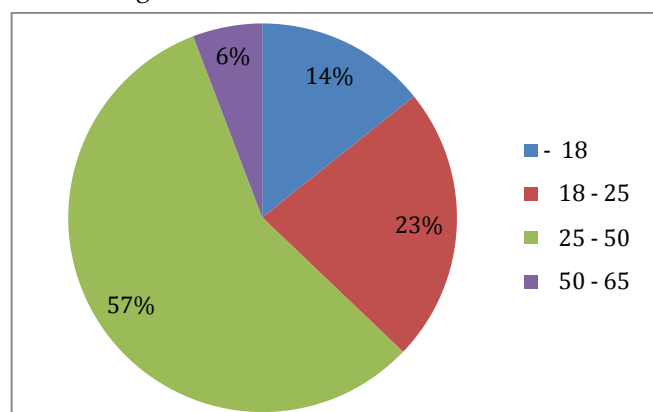
On the surface, Germany is a magnet for newcomers, especially those from EU countries. In 2012 nearly one million non-German citizens (966,000 persons) migrated to Germany, a country of 80.5 million people, according to the German Federal Office for Statistics. The vast majority of newcomers were nationals of EU member states. Migration from EU countries to Germany consists predominately of working aged persons.

Yet evidence suggests that the country is struggling to steadily attract and retain international talent. Three factors lend evidence to the hypothesis that the intra-EU-mobility-

boom in Germany may instead be a “mobility bubble”.

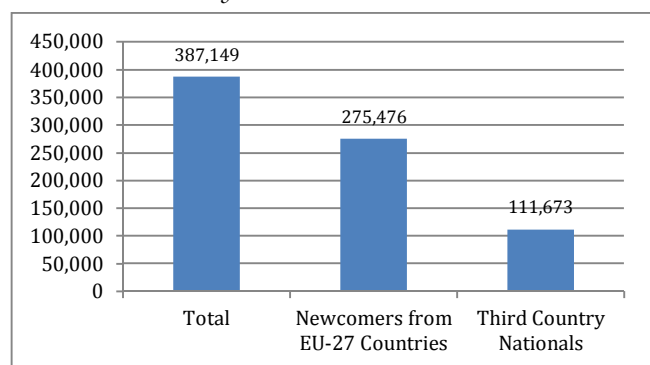
The first factor is the large scope of emigration that accompanies significant inflows: Germany is both pulling in newcomers and shedding a considerable number of international migrants simultaneously. According to the German Federal Statistics Office, in 2012 579,000 non-Germans left the country, putting net migration to Germany at: 387,000 non-German newcomers. The country is one in extreme fluctuation regarding its internationally mobile population, and this trend has continued in 2013 leading the German Federal Office for Statistics to conclude that the high volume of simultaneous in and out migration makes it unclear if immigrants’ plans to stay in the country long-term. Indeed, only a few years ago, Germany was a country of net emigration.

Figure 1. Net Migration from the EU to Germany by age 2012



Source: Destatis (German Statistical Office), 2013.

Figure 2. Net migration of non-German citizens to Germany 2012

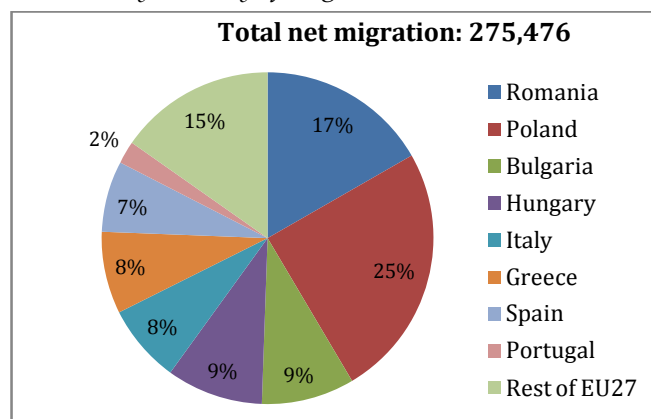


Source: Destatis (German Statistical Office), 2013.

The second factor is the national method for counting annual migration flows: German data include a significant number of persons that do not fit the UN international standard (and accepted EU terminology) for defining an international migrant. This is because the figures reported by the German Federal Statistics Office include persons who stay in the country for less than one year. If we apply the UN definition of “migrant” to the German data set, according to the Federal Office for Migration and Asylum, the number of migrants deflates to just half of total flows of non-nationals across German borders.

Third, are the considerable push (rather than pull) factors driving migration to Germany: In 2009 net EU migration to Germany was 18,000 soaring to almost 100,000 in 2010, doubling the year after and reaching 275,000 persons in 2012. This has occurred in parallel to austerity measures in many countries and the lifting of free labour movement barriers for the eight EU-accession-countries in the East. Unsurprisingly, the main countries of origin of newcomers to Germany have been Eastern and Southern European states.

Figure 3. Net migration of non-Germans to Germany by country of origin 2012



Source: Destatis (German Statistical Office), 2013.

With countries such as Ireland, Italy, and Spain becoming less attractive to mobile talent amidst uncertain economic times, Germany may be profiting from the “negative magnetism” of other countries. With significant wage differentials, unemployment levels and economic forecasts in the EU, the modest scope of EU mobility from southern Europe to Germany demonstrates that the lifeline of talent in the EU is clogged. The

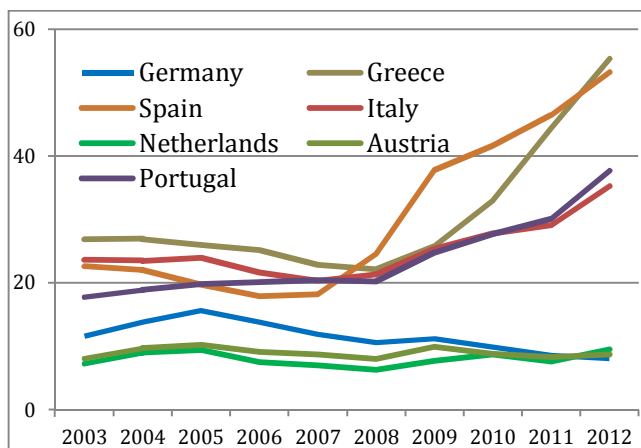
country is likely in the midst of a mobility bubble.

## 2. A European Fair Deal on Talent

Europe as a whole will be the first continent to enter a peaceful, managed demographic decline around 2040. The EU must urgently develop strategies for fostering EU mobility and create a fair deal on talent within the European Union.

A “European fair deal on talent” strategy could bridge the divide between mobility opponents who fear brain drain even when idle talent moves away, and mobility proponents who warn of brain waste when talent stays put at the price of unemployment. It could amplify the benefits of brain gain and brain circulation.

Figure 4. Youth unemployment rate in select EU countries 2003-2012



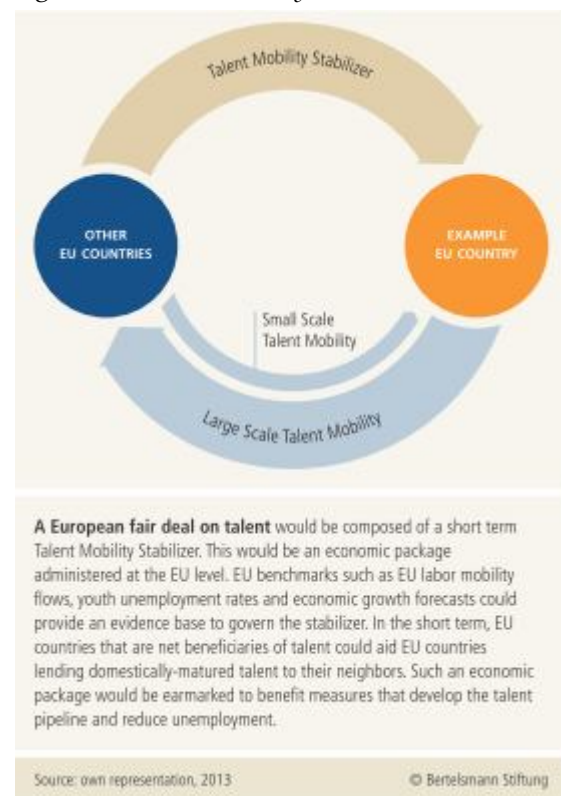
Source: Eurostat 2013.

Furthermore, it could contribute positively to increasing the EU’s economic competitiveness and economic rebalancing of the EU. In the short-term, the core argument for increasing mobility is to reduce (youth) unemployment in the EU while at the same time addressing emerging labour shortages in other EU countries through the mobility of workers. Especially youth unemployment rates in the EU have strongly diverged following the global financial crisis. Whereas Germany, Austria and the Netherlands have relatively low youth unemployment rates, these rates have all but exploded in southern Europe. Youth unemployment rates (15-24 year olds) in Greece and Spain exceeded 50% in 2012. Here it is

important to note that the youth unemployment rate has limitations as a metric because it doesn’t adequately consider those young people in education in training.

A European fair deal on talent would enable countries losing talent to better develop their future domestic talent pipeline and to combat unemployment. In cases where this talent is employed and benefitting another EU country, a “talent mobility stabilizer” mechanism could be created by EU member states in the short-term. Accordingly, the talent-lending country (that has substantially invested in and matured domestic talent) could receive a “talent investment package” to grow its future domestic talent pool and improve employment prospects at home. Such an initiative could be referred to as a European fair deal on talent.

Figure 5. Talent mobility stabilizer



The temporary talent mobility stabilizer would consist of an economic package administered at the EU level. In accordance with benchmarks, EU countries that are net beneficiaries of talent could target investment at EU countries that “lend” domestically grown talent to their neighbours, in the short- term. Such an economic package could

be ring fenced to benefit government programs, as well as a public private partnerships that develop the talent pipeline and reduce unemployment such as investment in education, training, lifelong learning and skills matching initiatives (that match job seekers with employment opportunities). This additional investment in talent should not replace national spending but complement it, increasing the total investment of talent lending countries in key areas of growth and talent.

Such a mechanism would have to be discussed and developed among EU member states. This policy brief offers a few contours of how the mechanism could take shape. A European fair deal on talent could for example, be governed by indicators such as:

- flows of intra-EU mobility and specifically intra-EU labour mobility,
- scope of employment of EU nationals in other EU countries,
- overall unemployment and youth unemployment levels in countries lending talent
- macroeconomic growth indicators and projections.

The collection of benchmarks could include an indicator on unemployment rates among mobile EU citizens, in order to raise awareness among EU member states should large-scale movements of EU citizens result in unemployment, rather than employment. The talent investment package could be included as a component in the next multi-year portfolio of the EU Commission and in its corresponding budget during its next legislative period or it could be created as a short-term, stand-alone fund at the EU level and be piloted initially.

Beyond forming an evidence base for the “talent mobility stabilizer”, the indicators can improve our understanding of organically evolving mobility trends. Through this improved knowledge, existing programs designed to foster mobility could be fine-tuned. New mobility, training and skills matching initiatives could emerge from this evidence base. Currently, data on EU labour mobility exists, but it is not compiled and reported in a way that allows for

easy access and evaluation. Additionally, skills matching mechanisms are currently undergoing heavy investment at all levels of governance. From the European, government driven EURES project, to local companies placing job adds in other EU member state’s media, the race to find well-functioning skills matching methods is underway.

Increased EU mobility is an important short-term strategy to reducing both talent gaps and unemployment. Yet the EU’s demographic challenge will exhaust its internal human capital resources before mid-century. In the medium to long term, the ingredients for a fair deal on talent in Europe will shift dramatically, to outside its borders. As the continent builds a demographic “roof” on its population cylinder in the next two decades, and overall demographic decline sets in by 2040, there will be no way to manage a fair deal within the EU, and a global fair deal on talent will need to be developed. According to projections by Boston Consulting, Western Europe will need to add 45 million workers to its labour force by 2030 to satisfy future labour demand. This equates approximately to the current working population of Germany.

### 3. German experiments in attracting EU talent

Matching labour supply and labour demand remains a huge challenge for both the private and public sector. For example, a pilot project of the Chamber of Commerce (IHK) Suhl, Germany advertised 25 job offers in Spain and received roughly 1,000 applications. Only 11 positions were staffed from these efforts according to the IHK. Chambers of Commerce and Chambers of Crafts have emerged as the key mediators between regions of high unemployment and their own talent shortage regions.

Some skills matching pilot projects focus on young jobseekers and on apprenticeships and traineeships. An initiative in Chamber of Crafts in Frankfurt selected 43 young people from the Madrid region for a trainee scheme in collaboration with employers in Hessen. They provided pre-departure language courses in Spain and the general schooling was offered and financed by the Chamber while the employers

paid for on-the-job training. The German Federal Ministry of Economics funded the project with €240,000, indicating government awareness of the challenges at hand.

Table 1. Responses at the state level to labour shortages in Germany

Bundesland	Strategy to address shortages
Baden-Württemberg	Allianz für Fachkräfte Baden-Württemberg
Bayern	6 Säulen Fachkräftestrategie
Berlin	Masterplan Industriestadt Berlin 2010 -2020
Brandenburg	Fachkräftesicherung in Brandenburg: Fachkräfte bilden, halten und für Brandenburg gewinnen!
Bremen	Fachkräfteinitiative des Landes Bremen
Hamburg	Hamburger Strategie zur Sicherung des Fachkräftebedarfs
Hessen	Gesamtkonzept Fachkräftesicherung Hessen
Mecklenburg-Vorpommern	Fachkräftesicherung für Mecklenburg-Vorpommern
Niedersachsen	Niedersächsischer Pakt für Ausbildung und Fachkräftenachwuchs
Nordrhein-Westfalen	Fachkräfte sichern! Landesinitiative zur Fachkräftesicherung -- Nordrhein-Westfalen handelt.
Rheinland-Pfalz	Vereinbarung - Rheinland-Pfalz für Ausbildung und Fachkräftesicherung
Saarland	Strategie der Landesregierung zur Deckung des Fachkräftebedarfs (via Demografie-Netzwerk)
Sachsen	Fachkräftestrategie Sachsen 2020
Sachsen-Anhalt	Fachkräftesicherungspakt
Schleswig-Holstein	Fachkräfteinitiative "Zukunft im Norden"
Thüringen	Fachkräfteperspektive 2020: Chancen nutzen - Potentiale erschließen

Source: Own representation based on Ministries of Economics in each Bundesland.

As shown in Table 1 to the left, the Bundesländer (the German federal states) have recently developed or refined strategies to address labour shortages with a wide set of measures. For example, the Region Brandenburg/Berlin estimates that 270,000 positions will go unfilled by 2015. And these estimates pertain to just two of Germany's 16 federal states. Each Bundesland has developed its own strategy oriented to state-specific skill shortages albeit addressing many common challenges.

Often cited measures to ease labour shortages are the recognition of foreign credentials, attracting foreign students to study in their state and providing information on employment opportunities within their states. Bavaria specifically underlines targeted recruitment of high skilled workers abroad as one of their six strategies to address labour shortages even though they view this pillar, as a tool to thwart short-term needs, and only want to recruit from abroad when the domestic labour supply has been exhausted.

State and national initiatives have been evolving in parallel. The states of Bavaria and Hessen have established websites and welcome centres. At the same time, national online platforms in Germany aim to boost talent inflows from other EU Member States.

The job-of-my-life, the BQ-Portal (part of the 'Fachkräfte Offensive'), and make-it-in-Germany are notable initiatives at the national level. German companies also contribute significantly to supplying the platform Eures with job advertisements. The Federal Ministry of Labour and Social Affairs, in cooperation with the German Federal Employment Agency (Bundesagentur für Arbeit), via their MobiPro initiative has devoted €139 million (between 2013-2016) to foster European labour mobility. It aims to build up Germany's labour supply and buffer in part an increasingly difficult old-age dependency ratio. The MobiPro funding is for persons aged 18 to 35 (in exceptional cases for persons up to age 40). Nevertheless, European or national support programs should generally not exclude older populations. The need for skills matching programs is undeniable, not only in the short run but even more so in view of the

demographic outlook in Europe. According to the Fall DIHK company survey almost 30% of employers have not been able to fill positions within the set timeframe of 2 months.

#### 4. The urgency of now and preparing for the future

Mobility within Europe has been difficult to achieve to date. There are no legal barriers for EU citizens moving to Germany. And there are no legal barriers for EU talent to leave Germany (such as facing uncertain prospect for re-entry). When Europe's periphery recovers from the economic crisis, Germany's prospects of attracting EU talent will likely diminish significantly. Thus, one can expect that EU talent will gravitate more evenly throughout various talent hubs in the EU in the coming decades, as the baby boomer exit the labour market.

Benchmarking and understanding what moves talent around the globe, and reacting to changes in talent flows in real time will become a necessity for economic well-being for both Germany and the EU. Therefore, the benchmarks suggested in this brief to govern a talent mobility stabilizer, could in the long term, grow and evolve into a universal tool for creating a global fair deal on talent.

Available data on talent flows suggest that talent hubs that can compete for high-skilled workers will be open, multicultural cities, while rural or less attractive regions (countries) will continue to lose both the competition for talent along with the best and brightest of their home-grown population. What policymakers must understand is that both retaining and attracting talent will increasingly be mutually reinforcing: if you cannot attract it, you will increasingly not be able to retain your own domestic talent.

In the short term, Europe should add to its 'toolbox' for growing and retaining talent, as well as matching that talent with employment opportunities. One way in which the EU and its member states can do this is by creating a talent mobility stabilizer and related benchmarking tool. The evidence base created as a result will provide useful insights to policy makers to fine-tune related talent policies. The ambivalence surrounding the fear of movement and the fear

of non-movement must be resolved in social and political consensus, if EU mobility is to become a reality, strength and regional comparative advantage of the European Union. In the longer-term the EU will have to develop a strategy for a global fair deal on talent. It will have to invest in growing talent both at home and abroad, as well as compete for mature talent globally.

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