Will a European unemployment benefits scheme affect labour mobility?

Cinzia Alcidi, Mikkel Barslund, Matthias Busse and Francesco Nicoli
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Abstract

Labour mobility in the EU is comparatively low, despite major efforts from the European Institutions to support cross-border mobility. This study evaluates the potential implications of a European Unemployment Benefits Scheme (EUBS) for labour mobility in the EU. We find that the introduction of an EUBS, irrespective of whether it takes the form of a genuine scheme or an equivalent scheme, is unlikely to have a substantial impact on the magnitude of EU mobility. An EUBS might be introduced alongside certain features designed to stimulate labour mobility, such as an extension of exportability of unemployment benefits or closer cooperation with national employment agencies. While both will positively impact mobility, its effect is likely to be marginal in light of the low uptake of exportability and the lagged responsiveness of mobility to shocks. Overall we assert that an EUBS may marginally facilitate labour mobility if the system is geared to advance this objective, but not more.
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1. Introduction

Labour mobility has long been argued to be one of the cornerstones of optimum currency area (OCA) theory (Mundell, 1961), and historically low levels of labour mobility in the EU have been a central concern since the adoption of the common currency. If the markets’ ability to mitigate shocks is also low, this concern may become even more pertinent.

As pointed out in Alcidi and Thirion (2016), the capacity of markets and fiscal policy to react to shocks is particularly important in the case of short-term, asymmetric shocks (i.e. usual swings of the business cycle), but adjustments in the labour market through wage adjustments and labour mobility become inevitable when an asymmetric shock is permanent. Similarly, in the case of a supply shock, whether symmetric or asymmetric, changes in relative prices and production patterns are inevitable. Hence, while certain policies can provide temporary buffers and gain time, they cannot necessarily assure structural change.¹ Cross-border labour mobility is one of the crucial adjustment mechanisms with which to absorb long-lasting and deeper shocks. This may well imply that mobility tends to materialise only with a lag relative to the occurrence of the shock, for instance the time necessary to realise that the shock is indeed persistent or permanent, thereby strengthening push factors.

The economic crisis and particularly the divergent economic conditions within the eurozone since 2011 have brought the worry about limited EU mobility to the forefront of the policy debate (Barslund and Busse, 2014a; Barslund and Busse, 2014b), even though recent analysis has shown mobility to be more responsive to economic conditions after a certain lag (Beyer and Smets, 2015; Jauer et al., 2014; Arpaia et al., 2014; Anderton et al., 2014). This would be consistent with the argument outlined above. This note discusses in detail the potential effects of the introduction of a European unemployment benefits scheme (EUBS) on labour mobility, assessing under which conditions and in what direction the EUBS might affect the level of labour mobility. Specifically, a distinction needs to be drawn between a genuine and an equivalent unemployment scheme and a number of details pertaining to each of these. We explicitly address only the effect on the level of labour mobility, and not under which

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¹ The investigation of this channel goes beyond the scope of this paper; for a more detailed analysis, see, among others, OECD (1999) and the role of labour markets in adapting to shocks.

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conditions this outcome would be desirable for individual member states and the EU as a whole.²

Our overall assessment is that an EUBS is unlikely to significantly change individuals’ incentives to move for purposes of work. One reason is that a European unemployment scheme would have a short-term nature and is unlikely to interact with labour mobility dynamics which tend to materialise with a lag relative to the shock. A second reason is the very limited use of the exportability of unemployment benefits that already exists today. The total number of people exporting their unemployment benefit to another EU country only make up around 0.5% of total annual mobility flows. Thus, increased coverage via an EUBS is unlikely to raise the usage of exportability to levels that would significantly increase overall labour mobility. We further argue that tailoring an EUBS explicitly to encourage mobility, i.e. by attaching conditions to individuals’ search efforts, will be difficult due to issues related to the implementation and monitoring of such conditions. We discuss other incentives and disincentives that might affect mobility, such as potential easing of liquidity constraints in job searches outside one’s home country, but their effects are small and will hardly affect mobility materially.

The note is organised as follows: we briefly review the current state of labour mobility and provide an overview of current EU policy initiatives related to mobility. Section 2 recalls the main features of an EUBS as a macroeconomic and social stabilisation tool, discussing, in particular, the distinction between genuine and equivalent schemes, and their impact on labour mobility. In section 3 we outline policy implications.

2. Current state of EU labour mobility

Although – as is apparent from Figure 1 – mobility across the EU decreased in the ‘symmetric’ phase of the crisis (2007-2010), there has been some degree of recovery since 2011. Overall, it is widely acknowledged that the yearly flow of people within the euro area, despite the increase observed since end 2011, are far from constituting a practical market-based stabilisation mechanism in the face of diverging unemployment rates.³ The stock of EU national residents in a different EU country was somewhat below 3% in 2013, while yearly flows peaked in 2007 at 0.4% of the total EU population and are now slightly above 0.3% of the population moving across borders each year.⁴

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² The effect of mobility on medium- to long-term potential output of both sending and receiving countries is an important topic. Nevertheless, it is beyond the scope of this study (see Holland et al., 2011, for a discussion and projections).

³ For a few smaller countries mobility has indeed been important, in particular among the young (Barslund et al., 2015).

⁴ The stock is based on citizenship and is therefore somewhat lower than the criteria ‘born in another country’.
Although the pattern of mobility has changed in the peripheral countries in recent years from a net receiver to a net-sender, as also noted in Barslund and Busse (2014b), a lot of ‘mobility’ seems to be driven by changes in migration between EU27 and third countries rather than intra-EU mobility. EU workers in crisis countries have also responded via mobility, but mostly in smaller countries (Figure 2a and b). In Ireland, for example, nearly one percent of its citizens left in 2012, which resulted, after adding inflows of nationals, in a net loss of more than half a percentage of its population. For Portugal and Greece, net mobility of nationals was registered at around one-third of a percent in 2012 and 2013. The response has been much more muted in Spain and Italy, despite the high levels of unemployment in both countries. This is true both of emigration, which remained below 0.2%, and the net outflow of only 0.1%. This suggests that domestic factors, such as language, cultural specificities and networks, play a key role in the actual decision to move, even for citizens in countries in economic distress.
An EUBS that expands eligibility may affect the migration channel of labour mobility, as explained in the next section. We therefore briefly explore the distinction between intra-EU mobility (movements from one member state to another) and migration (movements between EU and non-EU countries) below, and establish its potential importance for overall labour mobility.

Harmonised EU data for all countries – making a distinction between EU27 and extra-EU27 mobility (migration) – are only available since 2012, prohibiting a fuller dynamic and time-series analysis. Figure 3 shows the total mobility rate (differences between total immigration and emigration) and the EU27 mobility rate (difference between immigration from EU27 countries and emigration to EU27 countries) plotted against the unemployment rate with a simple regression line. The difference between the two slopes is the unemployment-induced net mobility from EU27 to third-countries. These simple associations imply that a one percentage point increase in the unemployment rate reduces net migration by 6.6 persons per 10,000 inhabitants. Of these, little more than four persons are coming from EU27 countries (and not necessarily EU27 nationals). Thus, around 2/3 of the effect is from EU27 to EU27 – or intra-EU mobility – and the rest is movement from and to third countries.
While instructive, these figures do not account for the different sizes of the member states, which is important in discussing the effect of labour mobility as a stabilisation mechanism. Properly adjusting for population size roughly halves both coefficients, leaving a coefficient on EU27 mobility of -0.022, which explains only a bit more than half of the total mobility response.

This simple analysis suggests, as noted above, that a sizeable proportion of the mobility response, associated with the crisis and stimulated via the unemployment differential, is likely to be coming from movement between EU27 and third countries. While more thorough studies have shown an increase in labour mobility during the crisis, we maintain that cross-border mobility is still subdued among nationals in large countries and this reduces the effect of mobility as a stabilisation mechanism. A higher mobility response to unemployment of foreigners than nationals is often assumed to be due to a lack of networks, temporary contracts and access to welfare benefits in the home country, e.g. unemployment benefits. If this is the case, one potential important implication of the analysis presented here, is that better coverage (i.e. in terms of eligibility and/or generosity) of unemployment insurance as a consequence of an EUBS (see below) may reduce mobility to third countries in times of crisis. This would further reduce the effect of mobility in times of crisis.

2.1 Current EU policy initiatives

As a consequence of the low level of labour mobility and therefore its limited impact as a stabilisation mechanism throughout the crisis, the European Commission has launched a number of initiatives to support and enhance workers mobility. These include:

- Expansion and upgrade of EURES
- My first EURES job initiative
- The European Skills/Competences, qualifications and Occupations (ESCO) system
- Recognition of professional qualifications
- Expansion of the Erasmus system (encompassing now also vocational students)
These initiatives are good and useful tools for mobile workers, but are unlikely to significantly change the magnitude and impact of mobility (Barslund and Busse, 2014b). In addition to these initiatives, Regulation 883/2004 (European Council, 2004) on the coordination of social security facilitates labour mobility by laying out principles for the transfer of rights related to the labour markets when individuals move from one EU country to another. The two principles of key relevance to mobile workers’ incentives are the aggregation and exportability principles. The aggregation principle states that time worked in one member country must count towards giving access to social security in another member country if the individual moves between countries. The exportability principle defines to what extent social security can be exported to other member states. Of importance in discussing the effects on mobility of an EUBS is the current rule of the exportability of unemployment benefit. A worker who has been unemployed for more than four weeks has the right to move to another EU country to seek employment and still receive unemployment benefit from the country of origin for a period of up to three months. Some countries discretionarily apply a longer period (or allow for an extension beyond three months) in which employment can be sought in another country while keeping unemployment benefits from the country of origin.5

It is worth noting that very few people across the EU use the right of exportability of unemployment benefits (Table 1). In 2013 the most applications were filed in Spain, followed by Portugal, which underlines the outflow of workers from these countries; Germany and France, however, take third and fourth place due to their size. Overall less than 30,000 people made use of the exportability in 2013, equal to only 0.11% of all unemployed or around half a percent of free movement within EU27 (based on figures for 2012, the latest year available).6

Table 1. Export of unemployment benefits to another EU27 country by country, 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>1,431</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>80</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>354</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,240</td>
</tr>
<tr>
<td>Germany</td>
<td>3,200</td>
</tr>
<tr>
<td>Estonia</td>
<td>82</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,072</td>
</tr>
<tr>
<td>Greece</td>
<td>n.a.</td>
</tr>
<tr>
<td>Spain</td>
<td>6,257</td>
</tr>
<tr>
<td>France</td>
<td>3,019</td>
</tr>
<tr>
<td>Croatia</td>
<td>54</td>
</tr>
<tr>
<td>Italy</td>
<td>974</td>
</tr>
<tr>
<td>Cyprus</td>
<td>312</td>
</tr>
<tr>
<td>Latvia</td>
<td>408</td>
</tr>
<tr>
<td>EU28</td>
<td>27,291</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuania</td>
<td>146</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>186</td>
</tr>
<tr>
<td>Hungary</td>
<td>54</td>
</tr>
<tr>
<td>Malta</td>
<td>12</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,904</td>
</tr>
<tr>
<td>Austria</td>
<td>1,738</td>
</tr>
<tr>
<td>Poland</td>
<td>280</td>
</tr>
<tr>
<td>Portugal</td>
<td>3,501</td>
</tr>
<tr>
<td>Romania</td>
<td>6</td>
</tr>
<tr>
<td>Slovenia</td>
<td>65</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>84</td>
</tr>
<tr>
<td>Finland</td>
<td>212</td>
</tr>
<tr>
<td>Sweden</td>
<td>336</td>
</tr>
<tr>
<td>UK</td>
<td>284</td>
</tr>
</tbody>
</table>

Note: Data cited are based on interpolated figures for second semester 2013. Source: Pacolet and Wispelaere (2014).

5 The principle of exportability is very similar to the one operating among US states.
6 Pacolet and Wispelaere (2014) suggest, based on a questionnaire of member states, that information and awareness of the right to exportability can be improved.
These numbers suggest that an expansion of unemployment insurance coverage as part of an EUBS, as discussed below, would not impact mobility significantly. One factor explaining why benefits are not exported more may be the additional administrative burden to export benefits (and more so to extend these when possible) relative to the short duration of coverage. A longer duration combined with a right to export the benefits beyond three months may raise the uptake of exportability, but even a doubling of the current figures would not greatly impact the overall mobility rates.

3. The shape of an EUBS and its impact on labour mobility

Two main alternative designs of an EUBS, an equivalent and a genuine system, are discussed below. In principle, both of them could impact incentives for labour mobility, but in different ways. For both systems, however, the impact on mobility would work through a macro and a micro channel.

The macro channel relates to the fact that an EUBS is designed to provide additional consumption smoothing against fluctuations in income within countries. By affecting demand, this should result in a smoothing of the difference in unemployment rates between one country (hit by the asymmetric shock) and the other countries.\(^7\) If labour mobility from one country to another is a function of the difference in unemployment rates (among other factors), the result is – holding other things constant – an overall decrease in labour mobility within the EU as a consequence of the implementation of an EUBS. In fact, the better an EUBS works as an income and employment smoothing mechanism, the less need there is for labour mobility as a stabilisation tool. The impact on incentives to move at the individual level for a fixed set of country differences in employment levels is further explored below.

The second channel, operating through changing incentives at the micro level, should be assessed at the level of the individual and evaluate how incentives to move are affected by the scheme. This is particular relevant for the class of genuine EUBS systems as explained below.

At the micro level an EUBS may affect mobility by influencing four transmissions channels:

1) **Via general search activity.** A change in search activity affects the probability of finding a new job and hence the probability of moving for a new job.

2) **Via the liquidity constraint.** An EUBS may relax liquidity constraints associated with applying for and taking up jobs requiring a move of residence. This point is particularly warranted when considering between country mobility.

3) **Via the reservation wage and matching process.** A change in the reservation wage may impact the quality of the subsequent job match, and indirectly the likelihood of residential mobility.

4) **Via direct and indirect barriers.** An EUBS may affect barriers to mobility directly via ‘so-called’ minimum requirements, or indirectly by e.g. administrative harmonisation as a consequence of the introduction of an EUBS.

\(^7\) We assume that smoothening national income implies a smoothening of unemployment rates.
Points one to three relates generally to the generosity of the UBS in place. However, an EUBS can through its (partial) transferability to other countries affect potentially liquidity constraints relating to labour mobility independently of its generosity. The longer the period of transferability, the larger the potential impact. The matching process may also improve if the potential for job searches across borders is strengthened (e.g. through a stronger integration of the EURES system into national systems) as part of an EUBS.

### 3.1 Genuine versus equivalent systems

In order to better understand how these mechanisms will affect incentives in the two different systems, we recall below some features of the genuine and equivalent systems. Under an equivalent scheme, the national UBS receive transfers from the EUBS scheme when certain defined conditions are met (as explained in more detail in Beblavý et al.). Importantly, an equivalent scheme leaves national UBS schemes intact (except for so-called ‘minimum requirements’). In a genuine system part or all of the individual unemployment benefit is distributed directly by the EUBS fund to the individual. Thus, a genuine system is better geared towards affecting incentives at the individual level.

Because an equivalent system leaves the generosity and coverage of the national UBS untouched, it will not in principle affect mobility incentives for the individual. An exception to this occurs if an equivalent system comes with ‘minimum requirements’ favouring mobility; an example of such minimum requirements could be the length of time unemployment benefits can be exported to another country for the purpose of job search. Another example would be requirements regarding the integration of national job centres into the EURES framework. However, typically, minimum requirements set the eligibility criteria to access the scheme and the duration of eligibility. For example, if self-employed are excluded from the UBS, like in the case of Romania, the number of eligible beneficiaries is reduced. In other cases, such as in Italy or Spain, a low coverage rate may be partly due to restrictive minimum conditions in terms of the number of months that the insured worker must have worked in the past year(s) in order to be eligible for unemployment benefits. Additional non-financial minimum requirements can be understood as complementary policies for the activation of unemployed people.

### 3.2 Impact of unemployment benefit on geographical mobility

The impact of (a change in) unemployment benefits on geographical mobility is fundamentally an empirical question. Increasing the generosity of a UBS will theoretically lead to lower search efforts. The lower the effort to find employment the less likely the individual is to take a job in another country. While the theoretical reasoning behind the negative incentive for finding

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9 An underlying assumption here is that a EUBS equivalent system will not affect the generosity of national UBS. One objective of a EUBS is to allow the automatic stabilizers (e.g. unemployment benefit) to work even in the face of large shocks. Thus, a EUBS equivalent system is likely to prevent or dampen cuts to the national UBS in case of negative shocks, increasing the generosity ex-post.
work appears to be straightforward (Tatsiramos and Van Ours, 2012), the empirical literature on search externalities does not agree on the magnitude of these effects. For instance, while Lalive et al. (2013) find evidence of strong negative effects of unemployment benefit generosity on the length of unemployment duration, while other authors have produced conflicting evidence (namely Card et al., 2007; Tatsiramos, 2009) and come to the opposite conclusion.

Even if the effect of a more generous UBS is negative vis-à-vis job search effort this might be counteracted by better job matches due to the fact that the worker can afford to wait longer for the right job. The empirical literature suggest this effect may be mild (Van Ours and Vodopivec, 2008; Caliendo et al, 2013; Tatsiramos, 2014; Nekoei and Weber, 2015).

When it comes to labour mobility one additional effect of duration and generosity of the unemployment insurance system may be particularly important: Since moving for a new job entails costs which are frontloaded relative to the benefit from gaining employment, a more generous unemployment insurance system may relax potential liquidity constraints and enable job search across country borders. This effect is more important in terms of job search in another country than the one you reside in.

There exist only a few recent studies assessing the total effect of unemployment benefit generosity on residential and geographical mobility. Looking at regional mobility in four large countries (France, Germany, Spain, and the UK), Tatsiramos (2009) finds no negative effect of unemployment benefit generosity on the probability that a worker will move for a job. On the other hand, Hassler et al. (2005) claim that low mobility in Europe is a result of high levels of unemployment benefits.

Our reading of the literature relating generosity of a UBS to the different transmission channels to labour mobility is that there is uncertainty related not only to the magnitude of potential effects, but also to the total direction of the impact. Relying on evidence from country studies is further muddied by the large institutional differences across the EU when it comes to labour market policy.

### 3.3 Impact of an equivalent system

The impact of an equivalent system on labour mobility will come from minimum requirements changing national systems already in place. Two minimum requirements are of special interest for mobility: duration for exportability of employment benefit, and generosity.

On the exportability of employment benefit, currently, unemployed individuals are entitled to go to another EU country with full unemployment benefit for the purpose of finding employment for three months after they have been unemployed for a minimum of 4 weeks (European Council, 2004). If ‘minimum requirements’ stipulated a longer period (as is already implemented on a discretionary basis in some member states) this would increase the incentive to look for a job in another EU country. However, the evidence available from the limited number of applications for exportability of unemployment benefit (see section 2 above) suggests this effect will be small.

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10 Exploring the nexus between (cross-border) labour mobility and liquidity constraints may be an interesting avenue for further research.
Generosity is linked to ‘minimum requirements’ via common eligibility rules and duration for receiving unemployment benefits. Such requirements are means of broaden eligibility and extend the duration in some countries. This will make national UBS more generous overall in the EU. The impact of such minimum requirements was covered in the general discussion in the previous section. To reiterate our assessment: the literature supports the positions that the impact on mobility will be marginal.

One issue which could arise if ‘minimum requirements’ were to stipulate a shorter period of employment prior to being eligible for unemployment benefit is that of mobility (migration) from EU27 to third countries. As discussed in the previous section, the evidence suggests that a large share of the mobility response to unemployment rate differentials is from EU27 to third countries. It is often assumed that third country nationals are quick to leave the EU if they become unemployed due to a lack of networks and access to unemployment benefits. One possibility is that EU27-third country mobility would diminish if eligibility requirements for accessing unemployment benefits are relaxed.

A final consideration is that the introduction of an equivalent EUBS system may require some harmonisation of rules and procedures related to unemployment insurance systems (and wider integration of the EURES system), which would lighten the administrative burden of moving across borders in search of a job, and hence increase mobility. There is some empirical evidence to this mobility-enhancing effect (d’Addio and Cavalleri, 2014). However, the impact of such harmonisations will be bigger for the genuine system described below.

It is worth briefly considering one version of an equivalent system that has attracted much attention, namely a reinsurance system of national unemployment benefits systems (Beblavy et al., 2014). Such a system of reinsurance only pays out (insures) when a country is hit by a sufficiently large shock (defined by a threshold value). The main idea behind this approach is that during normal business cycle fluctuations national automatic stabilisers will be sufficient to offset the downturn. In case a country is hit by a large shock which makes it difficult or impossible to fiscally maintain normal automatic stabilisers, the reinsurance system will backstop the national UBS. For this special case, individual mobility incentives can also be affected by minimum requirements and integration of the national UBS. There is no reason to believe that they will play a bigger role in changing incentives for labour mobility within a reinsurance system.

### 3.4 Impact of a genuine system

Many of the considerations for the equivalent system apply analogously to the impact of a genuine system on mobility with the details depending on the specific configuration of the genuine scheme. However, one important difference is that for the genuine system, employment insurance is managed by the EU institutions directly to the individual (except maybe for the top-up system). This should in principle allow for much easier exportability. A genuine system would allow for the introduction of individual conditionality, which could potentially be shaped in a way compatible with the promotion of labour mobility. In addition, a genuine system will come with a much more harmonised approach to unemployment insurance and would imply a larger degree of cooperation between public employment services, and a more fully integration of the EURES system. Training and advice could be directed towards fostering mobility.
All these elements could potential provide for a much more seamless job search experience across borders. However, there will still be a need for monitoring job search activities and verifying that conditions for receiving benefits are met which will necessarily fall on the member state where the unemployed reside. Such monitoring is particularly important if conditionalities are attached to job search abroad. Some bureaucratic hurdles may be broken down, but there will still be a need for close interaction and cooperation with the national unemployment offices. Also, it should be kept in mind that the key barriers for mobility are language and imperfect recognition and transferability qualifications; something which is unlikely to change with an EUBS.

4. Conclusion

Like any other unemployment benefit scheme, an EUBS will affect the effort made to search for a job and reservation wages. The theoretical economic arguments are straightforward and well understood, even if empirical studies show that these effects are likely to be small. We believe that the link between changes in generosity resulting from a shift to an EUBS to changes in labour mobility is weak and marginal. This belief is independent of the nature of the scheme. Both types of schemes, the genuine and the equivalent, can be designed to promote mobility either via ‘minimum requirements’ in the case of an equivalent scheme or through the design features of a genuine scheme. For instance, an equivalent scheme might extend the maximum duration for which unemployment benefits may be exported. Notably, the three-month period currently applied is not used much, suggesting that extending the period will have little impact. However, since the mobility tends to be induced by a crisis only with a certain lag, the coverage of unemployment benefits may in several member states have already expired before the decision to move is made, thereby limiting the impact of exportability. Likewise, the reduction in barriers ensuring portability of a genuine system must still be supplemented by the need to interact with the local employment office and subsequent monitoring of continued eligibility. These implementation issues are not straightforward.

In our view, if there is a trade-off between implementing an EUBS and enhancing cross-border labour mobility, it is bound to be small. A potentially negative effect on incentives regarding mobility from an EUBS will be dwarfed by other factors affecting mobility in the longer term. These include increasing language proficiency and further EU integration in areas both related and unrelated to the labour market.

Overall, we believe that an EUBS in itself will have a very limited impact on labour mobility.
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