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Labour mobility in the EU single market: Barriers, economic consequences and policy options

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I. Introduction

In recent years, the European Union (EU) has lost significant ground to other advanced economies, particularly the US. Several reports – most notably the Draghi Report (2024) – provide a detailed account of this. To put the EU back on a growth trajectory, productivity-boosting reforms need to be implemented. The International Monetary Fund (IMF, 2025a) has identified five key action areas:

(1) structural reforms to bridge the gap between the quality of European policy and global best practices; (2) reducing residual intra-European trade barriers; (3) reducing barriers to cross-border labour mobility within the EU; (4) advancing the creation of a single European capital market; and (5) establishing a single energy market.

In this article, the focus is on action area (3): labour mobility. Despite directly impacting the prosperity of EU citizens, it is an area that is often overlooked, and Felbermayr (2024) is no exception. This article is intended to help mitigate this shortcoming, as labour shortages and skills gaps continue to pose challenges and hamper Europe's ability to innovate and grow. Almost 80 percent of companies point to labour shortages as the second-biggest obstacle to investment and growth². Many of the new jobs created by the green transition are in sectors that are already experiencing increasing labour shortages. Digital skills also remain a challenge, with only 60 percent of Europeans possessing fundamental digital skills and few information and communication technology (ICT) professionals with advanced skills currently available. In addition, Europe faces difficulties in

the area of basic skills. Challenges related to cross-border recognition of qualifications, along with language barriers, hinder labour mobility within the EU. In order to alleviate labour shortages, it is essential to promote skills development – including through vocational training – and to attract global talent.

The free movement of workers is one of the four fundamental freedoms of the EU single market and has long been regarded as a cornerstone of Europe's economic integration. Enabling citizens to seek work, live and take up employment in any member state without discrimination, labour mobility aims to contribute to a more efficient allocation of human capital, a reduction of regional imbalances in the labour market and economic convergence across the Union. In theory, a fully integrated European labour market would allow workers to move to those regions where their skills are most productive, thereby boosting overall economic efficiency and strengthening the functioning of the EU economy. Local labour shortages or high local unemployment would thus be alleviated more quickly.

However, despite a legal framework for this already in place, the European labour market is still far from being fully integrated. While the EU has gradually removed formal barriers to labour mobility following the Treaty of Rome, EU citizens' actual cross-border mobility remains relatively limited. Only a small fraction of the European working population is employed in a member state other than their country of origin, and labour migration between EU countries remains low compared to internal migration flows in other integrated economies,

1 The author employed artificial intelligence in his research, in compiling the bibliography and in the editorial process.

2 EIB Investment Survey (EIBIS).

particularly the United States. In the US, labour mobility plays a central role in helping regional labour markets adjust to economic shocks. Workers frequently move between US states due to differences in employment opportunities and wages, thus aiding the process of economic adjustment. By contrast, labour mobility within the EU has historically been much weaker and slower to respond to regional economic imbalances. In this respect, Europe is at a disadvantage compared to other regions, particularly in times of structural upheaval coupled with a stagnating or even shrinking working-age population. Family businesses are likely to be particularly affected by this, because their loyalty to specific locations – especially in rural areas³ – requires sufficient factor mobility.

The limited mobility of workers within the EU has significant implications for the functioning of the European economy. From a theoretical perspective, labour mobility is an important adjustment mechanism in integrated economic areas, and particularly within monetary unions. According to the theory of optimal currency areas (Mundell, 1961), labour mobility can help buffer asymmetric shocks by redistributing workers from regions experiencing an economic downturn to regions with stronger labour demand. Where labour mobility is insufficient, other adjustment mechanisms must step in, such as wage flexibility or persistent regional unemployment. The relatively low mobility of workers within the EU therefore raises important questions as to the effectiveness of the European single market and the resilience of the economic and monetary union.

A growing body of research suggests that the limited integration of the European labour market is not primarily attributable to legal restrictions. Rather, it is a combination of structural, institutional and social barriers that continues to hinder cross-border labour mobility. These barriers include linguistic and cultural

differences, differences in labour market institutions and social security systems, difficulties in recognising professional qualifications and frictions in the flow of information that make it difficult for workers and employers to find one another across national borders. All of these issues require action at the European level, as highlighted in the widely publicised reports by Enrico Letta and Mario Draghi, even though these did not focus specifically on labour market challenges.

Against this background, the present paper examines the current status of labour mobility within the European Union and assesses to what extent the EU can be regarded as a truly integrated labour market. First, the paper analyses the institutional framework for the free movement of workers and examines recent trends in labour mobility within the EU. It then identifies the key structural and institutional differences that continue to limit cross-border mobility. The paper also discusses why incomplete labour market integration poses economic and macroeconomic challenges for the European Union, particularly in comparison with the United States. Finally, it considers a range of policy options for improving labour mobility within the EU and assesses their economic effectiveness and political feasibility.

3 See Kempermann et al. (2023): Die Bedeutung der Familienunternehmen für ländliche Räume; https://www.familienunternehmen.de/media/pages/publikationen/familienunternehmen-laendliche-raeume-2023/07fefb8e4c-1704730840/die-bedeutung-der-familienunternehmen-fuer-laendliche-raeume_2-auflage_studie_stiftung-familienunternehmen.pdf and <https://www.familienunternehmen.de/de/infografiken/laendlicher-raum> (German only).

II. EU labour market integration: Ten years of stagnation

1. Institutional framework

The free movement of workers is a central pillar of the European Union and one of the four fundamental freedoms of the single market. It enables nationals of member states to work and live in another EU country while enjoying the same conditions of employment as nationals of that country. The institutional framework governing this freedom is multi-layered, comprising primary law, secondary legislation and extensive case law established by the European Court of Justice.

The free movement of workers has its legal basis in the Treaty on the Functioning of the European Union – specifically in Article 45, which prohibits any kind of unequal treatment of workers from member states on the grounds of nationality as regards employment, remuneration and other conditions of work. At the same time, the free movement of workers encompasses several individual rights: the right to apply for job offers, to move freely within the territory of the member states, to stay for the purpose of employment and to stay on afterwards under certain conditions. These rights may only be restricted in the interests of public order, public safety and public health, with the European Court of Justice traditionally interpreting such restrictions very narrowly.

The specific details of these rights are set out in secondary EU law. The Freedom of Movement Directive 2004/38/EC plays a central role in this context, having systematised and harmonised the rights of EU citizens and their family members. Among other things, it governs residence rights for various periods, the requirements for permanent residence and access to social benefits. It is supplemented by Regulation (EU) No 492/2011, which is intended specifically to ensure equal treatment for workers. This regulation sets out specific provisions on access to the labour market, the prohibition of discriminatory practices and equal treatment with regard to social and tax benefits.

A key element of the institutional framework is its enforcement by the European Court of Justice. Through its numerous rulings, the Court has provided a broad interpretation of the free movement of workers, making it one of the most integrated policy areas in the EU (Pavone and Kelemen, 2019). For example, it has clarified that the protection applies not only to traditional employees, but may also extend to certain jobseekers and former employees. Furthermore, the European Court of Justice has consistently reinforced the principle of equal treatment and prohibited indirect discrimination – for instance, on the basis of apparently neutral national rules which in effect disadvantage foreign workers.

Alongside traditional forms of labour migration, cross-border posting of workers is also an important component of the institutional framework, even though it does not fall directly under the free movement of workers in legal terms, but rather under the free movement of services. The Posted Workers Directive (96/71/EC, amended in 2018) stipulates that, whilst posted workers remain employed in their country of origin, certain minimum working conditions must be observed in the host country. It is clear, therefore, that the institutional framework for labour mobility in the EU interlinks multiple freedoms and seeks to strike a balance between market integration and social protection.

Another important aspect is the coordination of social security systems. Because the member states are still independent welfare states, regulations are needed to enable mobility without any loss of entitlements. This is achieved through Regulation (EC) No 883/2004, which ensures that contribution periods are recognised and benefits can be exported. Its aim is to remove barriers to mobility without harmonising national systems.

At an institutional level, various support structures exist to facilitate the free movement of workers. One such structure is the EURES (European Employment Services)

network, which provides information on job vacancies and living conditions in other member states, thereby making it easier to exercise the right to free movement. National authorities and employment agencies also play an important role in the recognition of qualifications and the integration of mobile workers.

However, even with this well-developed legal framework, some challenges still remain, including differences in national regulations, administrative hurdles, language barriers and political tensions related to migration and social benefits. One issue that has sparked heated debate in recent years – and led to more restrictive interpretations by the European Court of Justice – is access to social benefits for non-working EU citizens.

In summary, the free movement of workers within the European Union is firmly anchored at the institutional level and is underpinned by a complex web of primary law, secondary law and case law. It is a central feature of the single market and contributes significantly to Europe's economic integration. At the same time, it is evident that its practical implementation requires continuous adjustment to ensure both economic efficiency and social acceptance. However, actual cross-border labour market integration still remains limited in practice.

2. Empirical evidence: Limited cross-border integration

Data from Eurostat clearly shows the long-term upward trend in intra-EU labour mobility (see Figure 1).⁴ In 2025, around 7.5 million EU citizens were working in a member state other than their country of citizenship. In addition, there were approximately 1.8 million cross-border commuters. Some 10 million EU citizens of working age lived

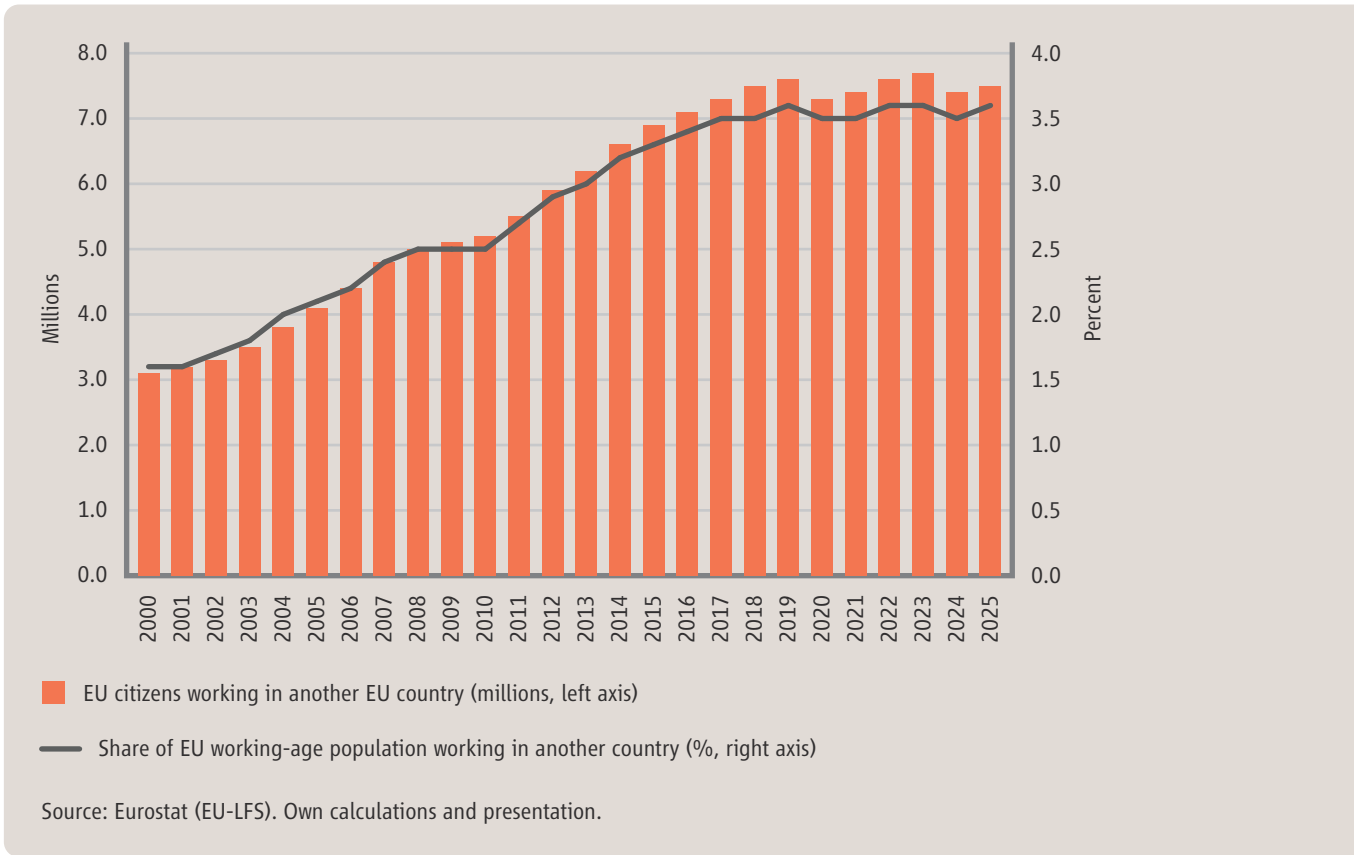
in a different EU country. According to the EU Labour Force Survey, the share of non-national EU workers stood at around 3.6 percent of the total labour force in 2025, versus around 2.5 percent in 2010.

Figure 1 also highlights that the rise in intra-EU labour market integration has not progressed any further over the past ten years. In the years prior to this, the EU's eastward enlargement and the gradual introduction of the free movement of workers by the EU's original member states were key drivers of labour market mobility. However, growing labour shortages in newer member states, falling unemployment rates in the southern countries of the EU and low growth in labour demand in north-western member states have significantly slowed cross-border labour mobility.

By contrast, the share of people in the EU population who have migrated from third countries has grown very rapidly. Currently, around 12 percent of the working-age population originate from non-EU countries; their share is therefore roughly three times that of people who have migrated within the EU. European migration patterns are thus influenced much more by extra-EU flows than by intra-EU flows.

4 See European Commission (2025) for the latest annual report on the integration of the EU labour market. The figures cited cover the EU-27 countries (i.e. excluding the United Kingdom). A very good summary with informative illustrations can be found at https://economy-finance.ec.europa.eu/migration-mobility-and-eu-labour-market_en.

Figure 1: Cross-border working population in the EU



Compared with domestic labour mobility, however, the cross-border integration of EU labour markets is only very weakly developed. In the EU, less than 5 percent of the working-age population live in an EU country other than their country of birth, whereas in the US, around 28 percent of the population live in a state other than their state of birth (US Census, 2025;⁵ Arpaia et al., 2016). This share is significantly higher than the corresponding figure in Germany, where on average around 15–20 percent of adults born in Germany live in a federal state other than their state of birth (Federal Statistical Office, 2024). In other EU countries, domestic mobility is even lower.⁶ In both the US and Germany, the share of the population originating from other parts of the country varies greatly depending on the state. This also applies to migration within the EU, as illustrated in Figure 2.

The two graphs refer to migrant stocks. However, the situation is very similar when looking at annual migration flows: In the US, 2–3 percent of the population moves from one state to another each year. In the EU, by contrast, this figure stands at just 0.4 percent, with an average of 1.5 million people migrating to another EU country each year (European Commission, 2026). This means that the domestic migration rate in the US is roughly six times higher. Clearly, the US responds to regional labour market differences much more rapidly with migration than the EU does.

The latest report by the European Commission shows, based on current figures, that the number of people who moved from EU/EFTA countries to another country stood at 970,000, and the number of people who returned to their country of origin at approximately

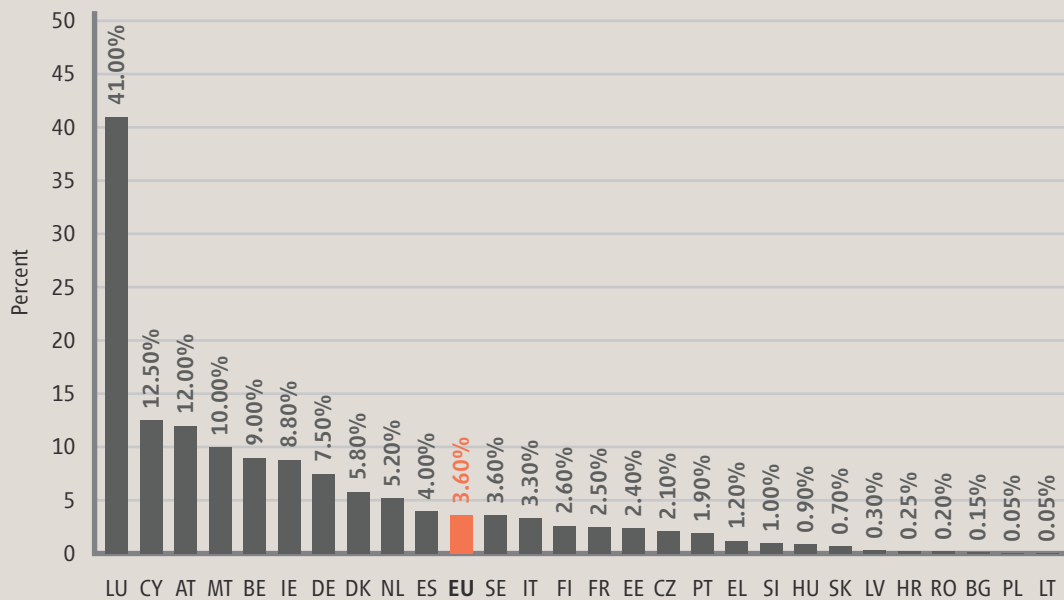
5 See: <https://www.census.gov/data/tables/time-series/demo/geographic-mobility/state-of-residence-place-of-birth-acs.html>.

6 However, due to the varying sizes of sub-national geographical units, comparability is limited.

740,000. These findings confirm that mobility within Europe remains strongly circular in nature. The report also highlights that the employment rate among immigrants (78 percent) is higher than that of native citizens (76 percent) and third-country nationals (63 percent). A specific analysis of the social situation of immigrants shows that access to good, affordable housing is of crucial importance to them: 19 percent of immigrants struggle to meet housing costs, compared with 8 percent of the corresponding native population. Mobility

rates vary only slightly across different occupations. For example, the European Commission’s report finds that 2.9 percent (209,000) of all healthcare professionals in EU and EFTA countries are migrants. Whilst the overall figures suggest that healthcare professionals are not over-represented among migrants, the report also shows that there are considerable regional and occupational differences when breaking down these overall figures.

Figure 2: Share of working-age people (20–64 years) living in a different EU member state than their country of birth in 2025



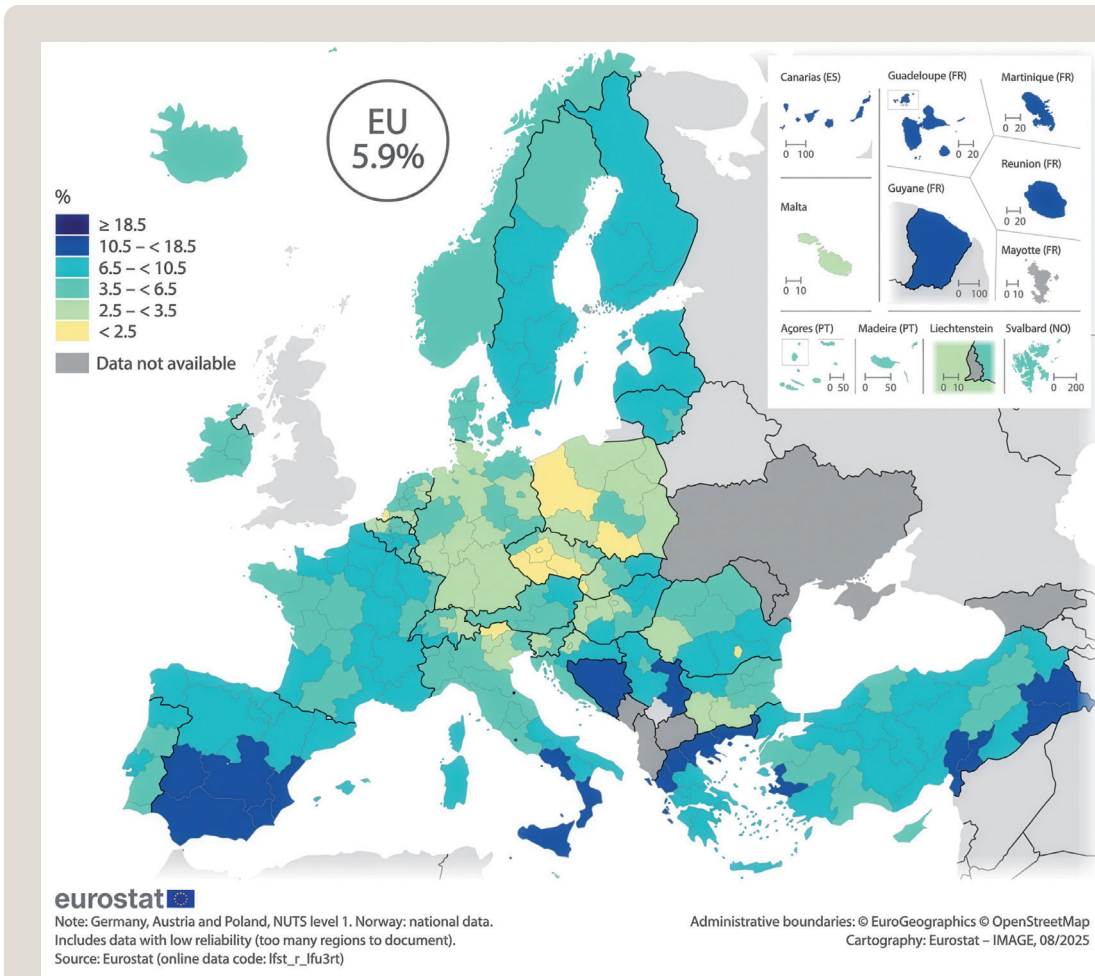
Source: Eurostat (EU-LFS), accessed March 2026. Own calculations and presentation.

Thus, intra-European labour mobility appears to largely follow labour market conditions, with integration into the labour market of the host country typically proving successful. This underscores the role of intra-EU mobility in improving overall economic productivity within the EU (European Commission, 2026).

Figure 3 illustrates that unemployment varies significantly across different regions of the EU. Although the differences have narrowed considerably since 2010, regional imbalances remain pronounced. For example,

the rate of unemployment is high in southern Spain, moderate in eastern Germany and very low in the Netherlands. At the same time, reports point to labour shortages across the EU. Sectors lacking skilled workers include, in particular, healthcare, IT, engineering and construction. Interestingly, these skills are in short supply throughout the EU, yet regional differences persist (European Commission, 2026). There is clearly untapped potential for labour mobility, meaning that value creation in the EU remains lower than it could be.

Figure 3: Unemployment rate (in %) by region in the EU



Source: Eurostat (percentage of potential labour force by NUTS 2 regions, 2024): https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Labour_market_statistics_at_regional_level

Regional economic shocks cause migration flows – people leave regions that are affected negatively and move to those affected positively. But there are clear differences between the EU and the US in this respect too. In preparation for the introduction of the euro, numerous econometric studies were conducted to assess whether labour migration within the EU could compensate for the divergence in monetary policy between member states. The results were mostly sobering. The two most prominent studies – one by Blanchard and Katz (1992) and the other by Decressin and Fatás (1995) – demonstrated very clearly that the US experiences pronounced

regional migration flows during regional recessions, whereas the response to recessions within the EU is significantly weaker.

Since the introduction of the euro, and particularly since the 2008 financial crisis, the responsiveness of intra-EU migration to economic shocks has increased measurably, though it still remains significantly lower than in the US.⁷ Current data from the European Commission shows that the responsiveness of labour mobility to differences in unemployment rates has almost doubled since 2008. A 10 percent increase in relative

7 See: <https://cepr.org/voxeu/columns/labour-mobility-and-adjustment-shocks-euro-area-role-immigrants>.

unemployment in the destination country now leads to a decline in immigration of around 1 percent. The significance of relative GDP per capita has also increased. Since 2008, a 10 percent increase in relative GDP in the destination country has led to an increase in migration flows of almost 6 percent. Moreover, third-country nationals living in the EU respond much more flexibly to labour market shocks than EU citizens, with their mobility rates comparable to those in the US. For every 10 percent drop in jobs, around 2 percent of the population moves away in the EU, compared to 8 percent in the US. In the EU, local shocks in national labour markets are absorbed, for example through reduced labour force participation rates; in the US, by contrast, the response is geographic migration. Lower regional mobility is a key factor explaining the productivity gap between the EU and the US: In the latter economic area, labour allocation is simply more efficient.

In summary, what we see is a paradox of the free movement of workers in Europe. On the one hand, the free movement of workers is one of the four fundamental freedoms of the EU single market and has formed part of Europe's economic integration since the Treaties of Rome. On the other hand, despite the legal framework in place, the labour markets of EU member states remain largely fragmented in practice.

3. Side note: Posting of workers

While the free movement of workers allows workers to move to another member state on their own initiative to work in the local labour market, posted workers remain employed by their employer in their country of origin. They are sent to another country on a temporary basis to provide a service there. In the construction and transport (logistics) sectors, or when implementing industrial projects, posting workers abroad can be of great economic importance. Overall, however, the number of posted workers in the EU is relatively small compared with the labour market as a whole. At the same time, the practice of posting workers is heavily concentrated in certain countries. According to figures

provided by the European Commission, there are approximately 1.5 million posted workers and around 4 million postings, as the same individuals are often posted abroad multiple times. On average, each posted worker accounts for 2–2.7 postings. Postings thus make up only around 1.5–2 percent of all employment in the EU. In quantitative terms, therefore, the phenomenon is much less significant than intra-EU migration (approx. 7.4 million workers abroad).

The Posting of Workers Directive governs temporary labour mobility via companies, not individuals' migration. Its purpose is to simplify the provision of cross-border services by establishing minimum rules. The central rule is that posted workers are subject to the core working conditions of the host country (e.g. minimum wage, working hours, health and safety, equal treatment). This is intended to reduce legal uncertainties and simplify the cross-border deployment of workers, thereby promoting more short-term labour mobility within the single market. In practice, though, the implementation of the directive often restricts mobility because it reduces cost differences and thus lowers the economic value of posting. Politically and economically, it is understandable that the different social and labour law systems of the member states should not come under pressure from a race to the bottom between workers from different countries.

Nevertheless, it should be noted critically that the implementation of the directive opens up leeway at a national level, which can ultimately make the posting of workers more difficult. The 2018 amendment to the directive further tightened the rules based on the fundamental principle of equal pay for equal work in the same place. Posted workers thus receive all remuneration components applicable in the host country, and after 12 or 18 months, the host country's working conditions apply with almost no exceptions. As a result, posting is, in effect, becoming more akin to regular (albeit very temporary) migration. The Posting of Workers Directive neither purely promotes nor purely restricts the free movement of workers. Its purpose is to ease

temporary labour mobility, protect working conditions in the host country and prevent a race to the bottom in the single market. It thus strikes a balance between the legal interests of single market integration and social protection. Both objectives are valid, but the conflicting interests lead to political disputes that are virtually impossible to resolve through academic discourse.

Conflicts arise above all between member states with lower wages (e.g. Poland, Romania, Bulgaria) and those with higher wages (e.g. Germany, France, Belgium). The former view tighter regulation as a means for wealthier countries to undermine the competitive advantages of newer member states, whilst the latter want stricter rules to combat what is known as “wage dumping”. Similarly, companies and trade unions have conflicting interests. Economists, lawyers and trade unions often differ in their assessment of the Posting of Workers Directive because they have different objectives and analytical perspectives. Whilst lawyers and trade unions are more concerned with rights, equal treatment and social standards, economists typically analyse efficiency, competition and welfare effects. For economists, the posting of workers is primarily a tool to make better use of resources within the single market. Wage differences between EU member states reflect differences

in productivity and living costs. When companies can temporarily employ workers from low-wage countries, production costs fall, resulting in cheaper services, greater competitiveness and a more efficient use of labour within the single market. The tighter requirements introduced under the 2018 amendment therefore reduce cost advantages, complicate the cross-border provision of services and slow down the integration of the single market. In light of the poor productivity trends in the EU, it is time to reassess the right balance between efficiency and social protection.

In any case, however, the focus must be on limiting the administrative burden on companies arising from the Posting of Workers Directive – a highly legitimate concern, particularly for family businesses. EU legislation allows member states to impose administrative requirements for the registration of posted workers, where this is justified and proportionate. This is necessary to ensure a level playing field and to protect workers’ rights, particularly in high-risk sectors such as construction and agriculture. However, the registration process is often complicated, and not all situations involving posted workers carry the same risks (e.g. skilled workers).

III. What impact does labour mobility have within the EU?

1. Welfare gains through labour market integration

The most important recent quantitative study on the effects of goods and factor market integration in the EU is that by Caliendo et al. (2021). It employs a detailed model that takes both trade and labour mobility into account. On the basis of migration data from the EU Labour Force Survey (LFS) and changes in migration policy, the authors estimate the effects of the free movement of workers on migration, trade and welfare. The findings clearly demonstrate the benefits of the free movement of workers within the EU.

Firstly: Labour market integration (along with trade integration) leads to positive aggregate welfare effects for the EU as a whole. Workers can migrate to countries where they can be more productive. This increases the overall economic efficiency of resource allocation, leading to higher aggregate income within the EU.

Secondly: The greatest welfare gains are realised in newer member states (CEE countries), because migration allows workers from these countries to access more productive labour markets. Remittances, knowledge transfer and investment promote growth in their countries of origin. The free movement of workers therefore

contributes to economic convergence within the EU.

Thirdly: The old (EU-15) member states also stand to benefit. While their gains are smaller, they are nonetheless positive, particularly when labour mobility is combined with trade integration. Without trade integration, some older member states would even have suffered losses, as migration and trade have complementary effects: Migration enables greater specialisation, whilst trade enables production for larger markets.

Fourthly: The effects vary by skill level. Free movement has distributional effects within EU countries. Low-skilled workers in new member states benefit particularly strongly. While free movement increases efficiency, distributional mechanisms (e.g. social policy) remain important.

The study by Caliendo et al. (2021) does not take into account that EU countries maintain generous welfare state systems that are financed by taxes and social security contributions. This means that, alongside positive effects on value creation, the immigration of low-skilled workers can also have negative redistributive effects for the local population. Furthermore, immigration into unemployment does not promote welfare. Battisti et al. (2018) incorporate these factors into a somewhat simpler simulation model for 20 countries (major EU countries and other OECD countries) that excludes trade.

The key empirical finding is that, in most countries, migration increases the overall economic welfare of the native population, with the benefits extending to both highly skilled and low-skilled natives in around two-thirds of countries. The average welfare gains amount to approximately 1–1.25 percent of income. One key reason for this is that migration improves job-worker matching. Despite the complications caused by the welfare state, labour mobility increases the efficiency of labour allocation within the single market. It can reduce the effective frictions in the labour market and increase employment. However, this study, too, finds that migration creates both winners and losers.

Generous redistribution systems influence these effects; they cannot eliminate the macroeconomic benefits of free movement, but they can weaken them. Therefore, the possibility and fundamental desirability of cross-border labour mobility must always be kept in mind when designing social welfare systems.

The challenges involved are, however, quite significant, as Felbermayr and Kohler (2009) have shown. They use a standard macroeconomic model in which international migration generates overall economic gains because it leads to an “immigration surplus” (similar to trade gains). Although migration increases overall welfare in the destination country, the gains are unevenly distributed. Unlike free trade, migration systematically creates losers because migrant workers compete with local workers and generate wage pressure (or – in the case of rigid wages – cause unemployment) in the labour market segments concerned. The winners – depending on the scenario, this could be capital owners or highly skilled workers – gain more than the losers lose, yet migration does not automatically constitute a Pareto improvement. This phenomenon can also occur in international trade. In that context, however, gains can (at least in theory) be redistributed through taxes and transfers, so that all domestic households are better off. In the case of migration, this kind of redistribution is much more difficult to implement, because redistribution via social or fiscal policy instruments typically may not discriminate against migrants (and for good reason!). This would be absolutely necessary though, because the gains from labour mobility accrue primarily to the migrants themselves, even though the wage rates applicable to them are currently falling due to immigration, which would make them recipients of a transfer system. In other words, the standard “compensation argument” cannot be applied as simply to migration as it can to trade. The distribution problem is therefore of a more fundamental nature. One possible solution could be to keep mobile workers within their original social security and tax systems for a transitional period, despite them changing national labour markets. This would mean that workers who have migrated to

Germany, for example from Bulgaria, would initially pay taxes and social security contributions in their country of origin, whilst also receiving social benefits from there. Obviously, such a change to the current system would require clear agreements with the countries of origin. Though this solution is appealing in theory, it is currently almost impossible to implement politically.

Amid the debate surrounding the United Kingdom's exit from the EU, there was intense wrangling over whether restricting the free movement of workers would have been an acceptable price to pay for the UK remaining part of the EU single market. From an economic perspective, the answer is yes, because – as described – trade and migration can, to a certain extent, be substitutes for one another. Even though they reinforce each other, as empirically demonstrated by Felbermayr and Jung (2009), there is no good reason to question the integration of the goods and services markets if freedom of movement is restricted.

However, in realistic models, the interaction between trade and labour mobility is quite subtle. In open economy models, the “immigration surplus” can be very slight or even fall into negative territory if immigration is accompanied by a deterioration in the real terms of trade.⁸ If immigration alters the supply of goods and thereby shifts export and import prices, this can diminish the welfare of the native population. The standard distribution conflict persists, but it is joined by additional effects through the prices of traded goods or services, so that the welfare impact of immigration on the native population depends on the strength of terms-of-trade effects, the production structure, factor intensities and the substitutability of labour.

2. Effects of incomplete integration

Labour market integration within the EU remains far from complete, giving rise to a number of economic disadvantages.

Firstly, static efficiency losses occur as a result of poorer matching between workers and jobs, as well as sub-optimal regional allocation of talent. The fact that unemployment and skills shortages, as well as labour surpluses and deficits, coexist in different regions is a clear indication of this. If mobility costs were lower, this problem would be less severe and overall economic productivity would be higher. In addition to improved job-to-worker matching, greater labour mobility also promotes innovation spillovers, as key workers share their knowledge of new technologies or management practices across regions.

The theory of optimal currency areas stresses the importance of labour mobility as a means of macroeconomic stabilisation. The low level of labour mobility in the eurozone, by international standards, makes it more difficult to adjust to asymmetric shocks and highlights the particular problems involved in abandoning an independent monetary policy. Furthermore, labour mobility is also a welcome adjustment mechanism in an ageing society.

In summary, greater labour mobility helps to distribute talent more efficiently and thus accelerates innovation.

3. Growth potential

The International Monetary Fund (2025b) examines to what extent structural reforms at the European, national and regional levels can boost productivity growth in Europe. It starts by noting that economic activity in Europe is heavily concentrated in specific areas, with a significant share of value added originating in hubs, i.e. productive metropolitan areas. However, the performance of these hubs lags behind that of comparable regions in the US, pointing to a lack of integration within the single market, regulatory differences and insufficient use of agglomeration effects. The European labour market, which is fragmented by national borders, is part of this problem.

⁸ See, for example, Felbermayr and Kohler (2007).

Against this backdrop, the IMF develops a simulation model that combines various reform scenarios and quantifies their long-term effects on productivity and income. The reforms can be divided into three main categories: firstly, EU-wide measures, in particular further integration of the single market through the removal of regulatory and administrative barriers in the areas of goods, services and capital. Secondly, structural reforms at a national level, for example in the areas of the labour market, education, competition policy and innovation support. Thirdly, measures at a local or regional level aimed at improving the functioning of local labour and capital markets and strengthening the dynamism of the private sector.

The simulation results show that a comprehensive reform package could yield significant macroeconomic effects. Under an ambitious scenario designed to close a large proportion of the existing reform gaps, aggregate economic productivity rises by around 20 percent in the long term. Real GDP per capita would then grow by around 30–35 percent. This magnitude of change illustrates that structural reforms would not only bring about marginal improvements but could fundamentally increase Europe's growth potential. A key driver of these effects is deeper market integration, which opens up larger markets for companies, allows for economies of scale and intensifies competition.

However, because such a comprehensive reform programme poses significant political challenges, this paper concentrates on more realistic scenarios. Even if only about half of the identified reform gaps are closed, this would still result in an average income increase of around 9 percent across the EU. This outcome has particular relevance for the economic policy debate, as it shows that even the implementation of partial reforms can generate substantial welfare gains. Individual reform steps therefore yield high marginal returns, particularly in areas where fragmentation is currently particularly pronounced.

At the regional level, the simulations demonstrate that targeted improvements also have measurable effects. If we succeed in raising structurally weaker regions to the level of better-performing regions (for example from the median to the top quartile), productivity increases by around 5 percent. These gains stem primarily from two sources: improved market integration at the regional level and a stronger role of the private sector, which drives innovation and a more efficient use of resources. The findings thus underscore that productivity differences within countries are an important lever for macroeconomic growth.

The mechanisms through which the reforms take effect can be summarised into three key drivers. Firstly, reforms increase the effective market size by removing existing barriers. This results in greater economies of scale and more efficient specialisation by companies. Secondly, they reinforce agglomeration effects: In more densely populated and better-integrated regions, companies reap greater benefits from knowledge spillovers, a skilled workforce and network effects. Thirdly, reforms improve the allocation of capital and labour, as resources can be more easily channelled into more productive uses. Collectively, these mechanisms lead to a lasting increase in productivity levels. Figure 4 summarises the potential quantitative effects on real per capita income. A realistic improvement in labour mobility within the EU could, on its own, lead to a 1.8 percent increase in real GDP per capita.⁹

With regard to distributional effects, the simulation shows that the reforms generate widespread benefits. Although individual regions may incur relative disadvantages, for instance if economic activity shifts more towards productive centres, the macroeconomic gains clearly outweigh these negative effects. Furthermore, the potential costs of compensation measures are comparatively low, equating to only a fraction of the overall economic gains. This implies that any potential losers could receive political compensation at a relatively low

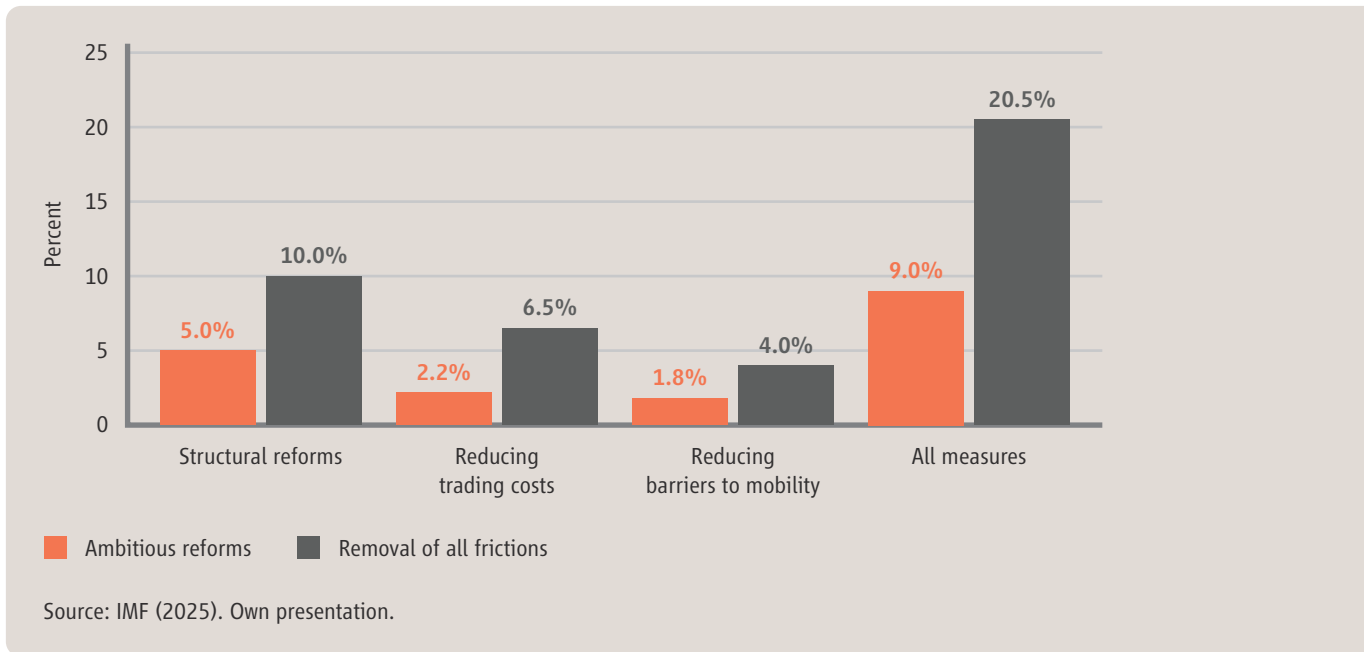
9 By at least double the annual rate of potential growth in Germany.

cost without significantly diminishing the efficiency gains of the reforms.

Overall, we can see that Europe possesses considerable untapped productivity potential that may be unlocked through coordinated reform efforts. This requires, most importantly, a combination of EU-wide integration measures and national and regional structural reforms. One key factor lies in strengthening economic hubs,

as these fuel innovation, growth and spillover effects. The simulation results suggest that even moderate progress on reforms will bring significant economic benefits, whilst ambitious reform programmes have the capacity to improve Europe’s long-term growth prospects fundamentally.

Figure 4: Effects of reforms on long-term real per capita GDP in the EU (as a percentage of the baseline)



IV. What is hindering labour mobility in the EU?

1. Divergent social security and tax systems

Although EU legislation formally prohibits discrimination on grounds of nationality and is aimed at easing mobility, certain structural barriers still exist, stemming in particular from divergent social security systems, challenges related to the portability of pensions and differing tax regimes. These differences effectively constitute implicit mobility costs and can have a significant influence on the decision to take up employment in another country.

A key area of concern is the social security systems of member states. These have evolved over time and differ considerably in terms of contribution structures, benefit levels and institutional organisation. Although Regulation (EC) No 883/2004 provides for the coordination of these systems – for example by guaranteeing that contribution periods are recognised and ensuring that people are not insured twice – the actual process of claiming benefits remains complex. Mobile workers often face administrative hurdles, for example when it comes to determining entitlements or communication between national authorities. Moreover, differences in

benefit levels can mean that changing one's country of employment comes with uncertainties regarding future social protection. This applies in particular to unemployment benefits, sick pay or family benefits, which vary considerably in terms of scope and eligibility criteria.

Another important aspect is the portability of pension entitlements. Here, too, coordination rules are in place at the EU level, but full portability in the sense of a uniform system does not exist. Pension entitlements are generally calculated on a pro rata basis according to how long a person has contributed to the pension scheme in different countries. This principle can lead to complex and non-transparent entitlement structures. Mobile workers often find it difficult to estimate what pension entitlements they will accrue in the long term, particularly if they change their country of employment several times. Differences in retirement ages, calculation formulas and funding systems amplify this uncertainty. Consequently, potential mobility gains may be tempered by fears of disadvantages in old-age provision, thus reducing the willingness to migrate within the EU.

National tax regimes also present a significant obstacle. Member states retain broad sovereignty over tax policy, leading to considerable differences in income tax rates, tax brackets and potential tax deductions. For mobile workers, this can give rise to complex tax situations, particularly if they earn income in several countries or if their place of residence cannot be clearly determined. Whilst double taxation agreements help to alleviate some of the problems, uncertainties and administrative burdens often remain. Furthermore, tax regulations can sometimes have an indirect discriminatory effect, for example when certain tax benefits are tied to domestic residence or family circumstances. The European Court of Justice has sought to limit such disadvantages through a number of rulings, yet tax fragmentation remains a major obstacle to the full realisation of the free movement of workers.

Furthermore, these institutional differences amplify the perceived risks of mobility. Whilst the legal framework enables mobility, factors such as uncertainty, a lack of information and administrative complexity increase the actual costs of changing jobs across borders. Low-skilled workers are affected by this the most, as they have fewer resources to help them navigate complex systems. But even highly skilled professionals can be deterred from migrating by tax disadvantages or unclear pension entitlements. This shows that it is not only formal discrimination but also institutional incompatibilities that restrict free movement.

Finally, differences in social welfare systems also have a political dimension. They influence how migration is perceived in host countries, for example by fuelling fears of "welfare tourism" or competition for the most generous social benefits. Such debates can, in turn, lead to more restrictive regulations that further limit mobility. At the same time, tension exists between the objectives of market integration and national autonomy in social policy, with this tension yet to be fully resolved.

2. Recognition of qualifications

The recognition of professional qualifications plays a key role in labour mobility within the European Union, as it directly determines whether, and how easily, individuals can apply the skills they have acquired in their country of origin in another member state.¹⁰ Although the European single market guarantees the free movement of workers in principle, admission to many professions is regulated by law and subject to proof of specific qualifications. Without effective recognition mechanisms, this free movement therefore remains restricted in practice.

A key institutional framework is Directive 2005/36/EC on the recognition of professional qualifications, which aims to remove barriers to the pursuit of regulated professions whilst ensuring minimum standards, for

¹⁰ This section draws on European Court of Auditors (2024).

example in areas such as health and safety. In principle, various recognition systems exist: automatic recognition for strongly harmonised professions such as doctors or architects, recognition based on professional experience and a general system in which individual qualifications are assessed (employment, social affairs and inclusion). These measures are designed to ensure that qualifications can be compared and utilised across borders.

Despite these institutional improvements, empirical analyses show that recognition procedures continue to represent a significant barrier to labour mobility. A key problem lies in the continued fragmentation of national regulatory systems: There are still around 5,700 regulated professions in the EU, with the specific requirements varying considerably between member states. These differences frequently result in qualifications not being automatically recognised, meaning that additional examinations, adaptive training courses or aptitude tests are required. These procedures drive up costs, prolong the time it takes to change jobs and create uncertainty for potential migrants.

Furthermore, the existing systems are used only to a limited extent in practice. It is estimated that only around 6 percent of people migrating within the EU actually rely on formal recognition procedures. This suggests that many potentially mobile workers either work in non-regulated professions or – and this is of even greater relevance – are deterred from migrating by administrative hurdles and a lack of information. Moreover, studies show that complex, slow or non-transparent procedures can act as a deterrent, particularly for skilled workers from less harmonised occupation groups (single market, industry, entrepreneurship and SMEs).

The economic consequences are significant. If qualifications are not recognised, or only recognised with a delay, human capital remains underutilised: Highly qualified workers end up working below their skill level or decide not to relocate at all. This leads to an inefficient

allocation of labour and dampens productivity and growth. At the same time, problems with recognition exacerbate existing skills shortages in host countries, as vacancies cannot be filled with suitable candidates. Companies therefore regularly stress the importance of faster and harmonised recognition procedures for securing skilled workers (bq-portal.de).

At the same time, the existing regulatory frameworks demonstrate the potential of institutional solutions: Where automatic or standardised recognition systems are in place, mobility is significantly higher, for example in the healthcare sector. This highlights that regulatory harmonisation and mutual trust in education and training systems are key prerequisites for well-functioning labour markets within the single market. On the whole, it can be concluded that the recognition of professional qualifications plays a key role in truly implementing the free movement of workers. It serves either as an enabler of mobility – if procedures are efficient, transparent and harmonised – or as a substantial barrier, when national differences and bureaucratic hurdles are predominant.

3. Scarce housing supply

Scarce housing supply is a key – yet often underestimated – factor in regional labour mobility and thus has a direct impact on the functioning of labour markets and overall economic productivity growth.¹¹ In well-functioning labour markets, mobility allows workers to move to where their productivity is highest – typically to economically dynamic cities and regions. However, if housing is scarce or prohibitively expensive, this adjustment mechanism becomes significantly restricted.

A major problem is that high rents and property prices greatly increase the financial barriers to moving. For mid- and low-income groups, in particular, access to housing in prosperous regions can become virtually unaffordable. Even if these regions offer better

11 See Hsieh and Moretti (2019).

employment opportunities, moving there becomes economically unattractive or simply impossible. The result is a misallocation of labour: More productive regions are unable to fill vacancies optimally, whilst in less dynamic regions, workers either remain employed below their potential or face unemployment.

Furthermore, housing shortages also have an impact through uncertainty and the costs of searching for accommodation. In strained housing markets, it is difficult to predict the availability of suitable housing, while viewing and application processes are time-consuming and often involve high transaction costs. These factors further increase the implicit costs of mobility and can deter people from even considering a potential move. As a result, companies in rapidly growing regions are faced with a restricted supply of labour, limiting their opportunities for expansion.

A further effect arises from increasing commuting distances. Where workers are unable to move close to their workplace due to high housing costs, they often resort to living in outlying regions. This leads to longer commuting times, which cause both individual welfare losses (e.g. time, stress) and macroeconomic efficiency losses. Longer commuting times can also influence employment

decisions, for example leading to reduced working hours or lower labour market participation, particularly in households caring for dependents.

From a macroeconomic perspective, scarce housing thus intensifies regional disparities. Productive hubs grow more slowly than they potentially could, whilst structurally weaker regions experience less economic relief. At the same time, agglomeration benefits – such as knowledge spillovers, matching efficiency between companies and workers as well as dynamic innovation – are not fully realised. Empirical studies show that restrictive housing market regulation and limited construction activity in many European cities add to the severity of these effects.

Overall, we can say that scarce housing supply acts as an “invisible barrier” to labour mobility. They reduce economies’ ability to allocate resources efficiently, thereby dampening productivity growth. Policy measures aimed at expanding the housing supply, reducing regulatory barriers in the construction sector and improving regional infrastructure therefore not only support housing policy objectives but also objectives relating to the labour market and economic growth.

V. Economic policy options

Draghi (2024) and Letta (2024) emphasise the need to strengthen the European single market in order to boost sluggish productivity growth. Both reports describe the free movement of workers as an economically underutilised instrument of the single market. The problem, they argue, is not the right itself, but the practical barriers to mobility that prevent an efficient allocation of labour.

1. A single market for skills

Draghi (2024) calls for a single market for skills, in which labour mobility is linked to education policy.

He demands simple and swift EU-wide recognition of qualifications, greater mobility for students, researchers and skilled workers, as well as better matching mechanisms between labour supply and demand, with national labour market institutions (such as the Federal Employment Agency) taking greater advantage of the European dimension. These demands deserve our full support. Member states must be prepared to break with long-standing traditions and shift the focus from formal qualifications to actual skills.

A key step in creating this single market is the expansion of EU-wide labour market platforms, which would

help improve matching between workers and job vacancies within the single market (European Commission, 2020). Despite the formal free movement of workers, considerable information and coordination problems continue to exist in practice: Workers are often unaware of available vacancies in other member states, whilst companies struggle to identify suitable candidates from other European countries. These frictions lead to an inefficient allocation of labour, prolonged vacancy durations and, at the same time, untapped labour potential.

EU-wide platforms such as EURES (European Employment Services) are designed to bridge this gap by consolidating job vacancies, candidate profiles and relevant labour market information across borders. The standardisation of CVs, qualification profiles and job titles can improve the efficiency of searching and matching processes. At the same time, such platforms provide information on working and living conditions, legal requirements and recognition procedures, thereby reducing uncertainty among potential migrants.

A key economic argument for expanding these platforms lies in the reduction of searching and matching costs, as explained by labour market economics. A better flow of information increases chances of matching the right employees with the right employers more quickly. This not only improves individuals' employment prospects but also boosts overall economic productivity, as vacancies can be filled more quickly and skills utilised more efficiently. Improved matching is of central importance, particularly in a heterogeneous economic area such as the EU, where skills shortages and unemployment co-exist.

Furthermore, digital platforms can deliver economies of scale: the larger and more integrated the labour market, the greater the value of the platform for all stakeholders. Better integration of national labour market services

into EU-wide systems could thus increase transparency and make cross-border mobility substantially easier. However, this is contingent on interoperable data standards, confidence in the quality of information and close cooperation between national authorities.

Overall, EU-wide labour market platforms should be seen as an infrastructural complement to the free movement of workers. Whilst legal mobility provides the formal basis, it is such platforms that enable this freedom to be effectively utilised in everyday life.

2. A fifth freedom for the single market

The idea of a fifth freedom proposed by Enrico Letta (2024) builds on the four traditional fundamental freedoms of the European single market (the free movement of goods, services, capital and people). Letta argues that, whilst these existing freedoms are still central, they are no longer sufficient to safeguard Europe's competitiveness in an increasingly knowledge-based and technology-driven global economy. He therefore proposes adding a further dimension to the single market: the free movement of knowledge, innovation and research. Because these aspects are inextricably linked to individuals' mobility, there is a strong connection to the free movement of people.¹²

At the heart of this fifth freedom lies the notion that, in today's world, data, ideas, technologies and scientific knowledge are just as crucial to a dynamic economy as traditional factors of production. However, Europe remains highly fragmented in this area. National regulations, differing standards, restricted access to research infrastructures and barriers to the use and exchange of data mean that innovation potential is not being fully exploited. As a result, companies and research institutions are unable to scale up to the same extent as, for example, their counterparts in the US.

¹² One might also argue that, given this close connection, the fifth freedom is essentially redundant. In any case, however, it highlights an important driver of productivity growth in the EU and, for that reason alone, it is worth discussing.

The fifth freedom therefore aims to overcome this fragmentation and create a genuine pan-European space for innovation. This will require, amongst other things, improving cross-border access to research funding, strengthening links between universities and companies, promoting technology transfer and creating an integrated European data space. It must also be easier for researchers and highly skilled professionals to change jobs across borders, for example through better recognition of qualifications and the reduction of administrative barriers.

In economic terms, Letta thus seeks to sustainably boost productivity growth and innovation capacity in Europe. An integrated knowledge space would make it possible to better exploit economies of scale, increase spillover effects between regions and attract more investment in future technologies. At the same time, the fifth freedom is also intended as a strategic response to global competitors such as the US and China, by better linking Europe's strengths in science, education and industry.

3. Improved portability of social security benefits

Economists have long been calling for improved cross-border portability of social security benefits within the EU; see, for example, D'Addio et al. (2015). This would be a key institutional factor promoting intra-EU labour mobility, as it determines the extent to which acquired entitlements – such as pensions, unemployment insurance or healthcare benefits – are retained when changing one's place of residence or work. Despite the rules for coordinating national social security systems, incomplete or complex portability of these entitlements continues to be a major barrier to mobility.

A key problem is that social security systems are highly nationalised within the EU, with significant differences in eligibility criteria, benefit levels and administrative procedures. Although coordination mechanisms do exist that allow contribution periods to be recognised or certain benefits to be exported, such mechanisms

are often administratively burdensome and difficult for individuals to navigate. Complex procedures, long processing times and uncertainty about future entitlements significantly increase the perceived costs of taking up employment in another country. Empirical evidence shows that negative experiences with the portability of social security entitlements, in particular, significantly reduce the willingness to migrate, whereas smooth procedures encourage mobility.

Several reform strategies can be identified to improve portability. Firstly, there is a need for greater harmonisation and standardisation of key rules, for example when it comes to recognising contribution periods or calculating benefit entitlements. Secondly, digitising and automating administrative processes – for instance through interoperable data systems between national authorities – could increase transparency and reduce transaction costs. Thirdly, extending the actual portability of benefits plays an important role, particularly in the case of unemployment and family benefits, which are currently regulated less clearly than, for example, pension entitlements. Fourthly, providing mobile workers with better information and advice can help to alleviate uncertainty and ensure they make better use of their existing rights.

In economic terms, improved portability would help people to better protect themselves against risks throughout their lives, thereby increasing individuals' willingness to move. If workers can be sure that they will not lose their social security entitlements, the implicit "mobility tax" resulting from institutional fragmentation will decrease. This would lead to a more efficient allocation of labour, better utilisation of skills and, ultimately, higher productivity gains within the single market. Overall, the portability of social security benefits is therefore a key element in ensuring that the formal right to free movement of workers within the EU is effectively implemented in practice.

4. Tax incentives for high-potential workers

Brücker et al. (2024) discuss whether tax rebates for new immigrants – for example in the form of an income tax exemption on earned income of between 10 and 30 percent – might be beneficial. The impact of this national measure would depend heavily on the broader context. On the one hand, significant windfall effects are to be expected: Many beneficiaries would likely immigrate even without the tax incentive. This would result in fiscal costs without any additional impact on migration, making the instrument inefficient. There would also be distributional effects and issues of fairness. If tax concessions were limited to new immigrants, this would mean unequal treatment compared to the existing workforce, which could lead to potential tensions in the labour market. In any case, it is crucial to clearly define the target group. If the measures are specifically limited to occupations with labour shortages

or highly skilled immigrants, the outcome for Germany could be positive and efficient, although the impact on the countries of origin (see above) could be critical – including within the EU, where this could lead to a race to the bottom in terms of taxation, resulting in falling government revenues without clear gains in welfare.

Experience in other countries shows that tax incentives can have a positive, albeit moderate, effect. Their effectiveness rises when they are combined with good labour market integration and attractive institutional frameworks, with the rapid recognition of qualifications being particularly crucial. Policymakers should therefore consider introducing carefully thought-out tax incentives. However, higher top tax rates would certainly do little to enhance the attractiveness of the German labour market to key workers.

VI. Closing remarks

Free movement of workers ranks among the key achievements of the European single market and is firmly enshrined in law. In practice, however, its potential falls well short of expectations. Despite formal rights to mobility, actual cross-border labour migration within the EU has been comparatively low, remaining at a stable but low level for years. At the same time, many member states are experiencing significant skills shortages, whilst in other regions the workforce is underemployed. This discrepancy points to a structural problem: The institutional and economic framework prevents a sufficient number of workers from moving to where they could be deployed most productively, thus weakening a key adjustment mechanism of the single market – with direct negative consequences for Europe's growth, innovation and competitiveness.

This analysis shows that the underlying causes are diverse and mutually reinforcing. Institutional barriers remain a major obstacle, particularly as regards the

recognition of professional qualifications. Complex, lengthy and often still paper-based procedures make it difficult for workers to utilise their qualifications in other member states, thereby preventing the efficient allocation of human capital. This is compounded by administrative hurdles, for example when posting workers abroad or dealing with social security issues, resulting in uncertainty and additional costs for both workers and companies. Language barriers and a lack of information also remain significant factors that limit actual mobility, despite the legal freedoms in place.

In addition to these institutional factors, economic barriers, too, play a decisive role. A particular problem is the scarce and expensive housing in economically dynamic regions, which acts as a de facto barrier to entry for many potentially mobile workers. Even where attractive employment opportunities exist, high living costs can make relocation unattractive or impossible. Furthermore, there continue to be differences in

national social security and tax systems, which complicate the portability of entitlements and thus create additional risks for mobile workers. Overall, this results in an “invisible fragmentation” of the single market, which restricts effective mobility far more severely than the formal legal situation would suggest. Against this backdrop, three particularly effective policy recommendations can be derived.

Firstly, it is essential to substantially simplify and speed up the recognition of professional qualifications. In particular, this requires systematic digitisation of procedures, greater standardisation of requirements and – where possible – wider use of automatic recognition systems. The aim must be to ensure that qualifications can be recognised quickly, transparently and reliably within the EU.

Secondly, a focus should be placed on further developing an integrated European labour market information system. Platforms such as EURES can be significantly enhanced through better data integration, standardised skills profiles and closer cooperation between national employment services. A transparent, EU-wide labour market would reduce the cost of searching for jobs, improve matching processes and thus significantly increase actual mobility.

Thirdly, it is necessary to improve the framework conditions for mobility at the local level, in particular by expanding the supply of housing in economically strong regions and by improving the coordination and portability of social security benefits. Only if workers have realistic access to housing and the social risks associated with relocating are minimised can the necessary level of mobility be achieved.

Overall, it is clear that although the free movement of workers in the EU has been enshrined in law, its economic impact is limited by numerous practical obstacles. Overcoming these barriers is key to fully exploiting the productivity potential of the single market and securing Europe’s long-term competitiveness.

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