

Pedro S.  
Martins

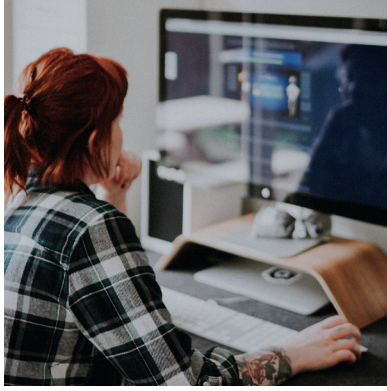


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## The Proposal

# The Potential of International Remote Work to Revive the European Labour Market

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***The distance working formula could provide an opportunity, if it is regulated with balanced and proactive criteria, to set in motion a path towards a fairer relationship between work and personal life (with a significant reduction in migration flows). Its effectiveness and efficiency would be better served in the context of international development. And European development in particular. With clear benefits for all: countries, companies, workers, families, individuals. The role of politics in this complex but fascinating game.***

After several years discussing “the future of work”, it abruptly dawned on us. The future of work became the present of work. But in a different form than most had imagined before. Yes, artificial intelligence, automation and platforms are an increasingly important part of labour markets as expected. What was not anticipated was the major and sudden growth of remote employment prompted by the Covid pandemic.

Having to shield in our homes during widespread lockdowns, many businesses and organisations turned to remote work. Using videoconferencing technologies already available for some time but now subject to further refinements and benefitting from fast internet connections, millions of workers were able to resume their professional activities from home.

This process led a massive, unexpected and unique social experimentation on remote work. Clear and comprehensive evidence on the effects of this experiment is still forthcoming but the anecdotal evidence is clear (or at least as clear as anecdotal evidence can be): remote work works. More than that, in many – although certainly not all – circumstances, remote work even works out very well, delivering benefits to all parties – workers, firms, and society more broadly.

Using now ubiquitous software tools such as Zoom or Teams, the employees of many firms in the service sectors can still interact regularly and conduct joint projects effectively and efficiently. Moreover, many such employees can achieve a better balance between their work and personal lives, by not having to commute daily to their offices and by gaining additional flexibility in their time management. The latter represent major gains in “externalities,” namely reductions in pollution and congestion, delivering important positive social effects.

### **The proposal**

While much has been said about remote work – or, more specifically, remote employment – within countries, relatively little has been said so far about international remote employment. By the latter I mean situations in which one or more of the employees of a firm of a

country conduct their work while based in another country. These employees may have standard open-ended, full-time employment contracts and benefit from the same or similar contractual working conditions as their colleagues based in the same country where the firm is established.

Indeed, once employees are working remotely, they may work in the same city as the office of the firm – or in a completely different location, in the same country or abroad. The only practical restriction concerns the time zone of the country where the employee is based, ideally not more than around two hours ahead or behind that of the country of the firm. Of course, colleagues would still meet physically every now and then, perhaps once or more every week if located close by or less frequently if based in different countries.

International remote employment is straightforward from a conceptual perspective – and highly desirable from the perspectives of the interests of the firm and the employee (more on this below) – thus constituting a significant tool towards the revival of the European labour market. However, its emergence within the scope of the European Union would require a large debate and possible policy action, given the many questions that such new form of employment would raise. This is the proposal made in this article: to debate international remote work and to facilitate its development through the adoption of the required policies and make it a success in the European Union.

### **Legal matters**

Once an employee of a firm resides in a different country than the one in which the firm is located, questions arise as to the legislation that is applicable to each party. Is the employee subject to the employment law and collective bargaining of the country where she lives in or the country where her employer is located? In which country are the income and social security taxes of such employment relation to be paid?

Of course, the firm may create a subsidiary in the country where the employee is located so that the employee is affiliated with that establishment. However, this procedure would be cumbersome and costly, thus significantly discouraging the growth of this form of remote employment and its significant economic and social advantages.

A much more interesting perspective would involve an EU-level procedure to regulate these employment relationships. Perhaps the adoption of such regulations could follow some of the lines of the debate around the posting of workers. I would argue that a possible starting point of this discussion would involve a mixed system, in which the employment law, collective bargaining and income taxes that would apply to the employee would be the one applicable in the country of the firm – while the social security taxes would be paid in the country where the employee is based. These arrangements could be labelled “European remote employment contracts.”

This compromise would favour the development of these forms of employment, given the

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relative simplicity of its arrangements from the perspective of the legal dimension. It would also support the modernisation of collective bargaining and social dialogue, towards the inclusion of new clauses towards the regulation of this form of employment.

While most of the tax revenues would be received by the country where the firm is located, this would be fair given that this is also the country where the (international) hiring is conducted. (Provisions would perhaps be needed to ensure that firms are not artificially set up in low-tax member-States.) On the other hand, the full payment of the social security taxes in the country of the employee would fund the payment of the standard forms of social protection, such as unemployment benefits or old-age pensions.

### **Possible effects**

A change of this nature – the possibility of a significant percentage of the employment contracts in each country with firms based in another member-State of the European Union – would have a systemic dimension. Given the scope for remote work in the EU – estimated at over 30% of the labour force –, the labour markets of many countries could be transformed for the better. Even if only an average of around 5% of the EU labour force would work under these contracts by 2025, this would still represent a marked change in the shape of labour markets.

While it is difficult to anticipate the effects of such landscape, a few possibilities can be mentioned. First, labour markets of occupations that can be performed remotely will become far more competitive. Firms' recruitment in these cases would no longer be restricted by the range of the local labour markets where these firms are based. A firm in Milan could employ workers based in Helsinki and Lisbon that proved to have the requisite profiles for the position. Similarly, workers in Helsinki or Lisbon would no longer be restricted to job offers in those cities, becoming able to work for firms across Europe, including Milan. This situation would greatly increase the "thickness" of labour markets, allowing for much better firm-worker matches (and the resulting increases in productivity and working conditions). The increased competitiveness of the market would also reduce monopsonistic outcomes (such as lower wages) and discrimination – while promoting greater convergence of living standards across the continent. In this process, businesses and other organisations across the continent would become much more European, given the increasing international nature of their workforces.

Second, migration flows of workers in occupations that can be performed remotely would change dramatically. A large share of these flows from low- to high-income countries (generally from Southern to Northern Europe) would no longer occur (and possibly even be reverted) – as workers can perform such activities from their home countries. On the contrary, the flows in the opposite direction (from Northern to Southern Europe) would increase, as such workers would be keen to benefit from the generally better living conditions in the South.

In other words, the frequent "brain loss" experienced by Southern member-States would lead to a much welcome "brain gain" phenomenon. (At the same time, domestic firms in Southern countries would face greater pressure to retain their staff, leading to higher wages and possibly even lower survival rates amongst the least productive firms.) While Southern countries would not benefit from the income taxes of workers under these proposed "European remote employment contracts," that would also not happen under the case of standard, physical migration. In contrast, social security revenues would be accrued – as well as taxes from the spending of Northern wages on home soil.

Third, public policies would have to adapt to this new type of employment. On top of open-ended/fixed-term, full-/part-time, and employment or service provision contracts, a new

category will emerge: non-remote or remote (national or international) work. National public employment services (and the Eures network) should source and advertise these positions – and train jobseekers to improve their productivity while performing them. Employment law and social security regulations should be updated to ensure a good balance between flexibility and protection under the new terms offered by international remote employment. Business regulations should foster the emergence of companies recruiting under these contracts. Perhaps this will also lead to some degree of convergence in these regulatory dimensions across member-States.

### **Concluding remarks**

In a time as challenging as the one we are facing, following the multiple shocks from the pandemic – in terms of health, schooling, income, and debt –, one should think boldly about new policy options. The European remote employment contracts proposed here offers the potential to promote the upward convergence of living standards across the EU, by increasing productivity and competitiveness. At the same time, it would contribute towards making the single European labour market more of a reality. More important than all, it would promote a better balance between work and life while reducing international migration flows.

Technology is generally a major force for good. International remote employment was made possible by the ubiquity of the internet, fast computers and new software tools – in the context of a forced experimentation following a pandemic. It is said that “every cloud has a silver lining” – in this case, the cloud of the internet that can facilitate the remote employment proposed here may be made of gold.



*Pedro S. Martins is Professor of Economics at Queen Mary University of London and former Minister of Labour of Portugal. His research concerns labour and the role of public policies in improving efficiency and equity. He is currently a member of the group of independent experts advising the government of Greece and the European Commission on the future cycle of labour market reforms in that country. He has recently collaborated with the research department of the International Monetary Fund.*