

Regional employment change and the geography of telework in Europe

Introduction

The EU has seen an increase in the importance of capital city regions (capital regions) as drivers of innovation and growth and as centres of economic and human development. In January 2021, 16.3% of EU residents – 72.7 million people – were living in the EU's 27 capital city metropolitan regions. This is notwithstanding well-known disadvantages, such as a higher cost of living and congestion issues.

Meanwhile, sparsely populated areas continue to face long-term economic decline and depopulation, with an exodus of people to cities in search of economic prosperity. Fewer job opportunities, restricted access to public services and weaker infrastructure are among the challenges encountered by people living in rural areas. At the same time, they enjoy more affordable and spacious housing, less pollution and more natural amenities.

This report provides evidence on recent employment dynamics across EU regions, focusing on how patterns of sectoral specialisation and potential for remote work may have contributed to the resilience of capital regions and mainly urban regions to the COVID-19 crisis. The report investigates the key role of telework in providing a buffer against the employment shock caused by the pandemic, and telework's continued importance in the post-pandemic recovery from a regional perspective. It also investigates the factors that contribute to remaining urban–rural differences. Finally, the report looks at how public policy could leverage opportunities to telework in rural and peripheral areas to foster more balanced regional development.

Policy context

Strengthening economic, social and territorial cohesion is a key objective of the EU. Cohesion policy is the main instrument used to promote balanced and sustainable regional development, for example by supporting less developed regions. To date, the EU has been successful in reducing economic disparities between Member States.

However, many rural areas face economic and social challenges, such as population decline, lack of adequate employment opportunities, underdeveloped infrastructure and more limited internet connectivity.

At the same time, large urban centres – especially capital cities – continue to play a crucial role in economic development. They have reaped the benefits of the teleworking revolution, but they also face significant sustainability challenges: overpopulation (which can translate into pressure on essential services including healthcare and housing), pollution and social inequalities. In this context, the expansion of teleworking might be seen as an opportunity for the economic and social renewal of rural areas.

The issues of regional disparities and geographical diversity within the EU are therefore as relevant as ever. There is mounting evidence that regional differences in prosperity and economic dynamism translate into disparities in living standards and access to resources, which in turn have social and political ramifications, as they can foster a sense of discontent, resentment and anxiety in regions that are perceived as being 'left behind'.

Key findings

- In 2022, almost 90% of EU NUTS 2 regions had employment rates that were above their pre-COVID-19 levels. More than two-fifths of all regions had an employment rate equal to or above 78%, the EU's employment rate target for 2030. However, marked differences persist.
- Of the 10 regions with the highest employment rates in 2022, 6 were capital regions. They experienced the strongest employment growth between 2019 and 2022, notably in high-paid jobs; they were also more exposed to job losses in low-paid contact-intensive jobs.

- In capital cities, 1 in 4 workers are employed in knowledge-intensive services in the private sector, compared with 1 in 10 in mainly rural regions. The resilience of employment in capital regions and mainly urban regions to the COVID-19 crisis was in part due to the high proportion of work that could be performed remotely.
- Among the 20 regions with the largest shares of people working from home in 2022, the majority encompass national capitals or surround them. Across the EU, teleworking rates have diverged between urban areas and the rest.
- Across Europe, some noteworthy initiatives have been launched since the onset of the COVID-19 pandemic to support remote work in rural, peripheral or marginalised areas through the creation and expansion of coworking spaces. These have the potential to contribute to the social and economic regeneration of the communities in which they are located.
- Telework can make it possible to uncouple economic specialisation from place of work, as it relaxes constraints on relocation, thus creating new opportunities for regional development. Public policies can support remote work in rural, peripheral or marginalised areas through targeted initiatives, for instance aimed at the creation of coworking spaces. These can promote dynamism and diversity in rural economies by attracting knowledge-based workers and entrepreneurs.
- Fast internet connectivity is the essential enabling technology for telework. Efforts to achieve policy targets on internet connectivity in both urban and rural areas have taken on a new urgency and impetus since the COVID-19 pandemic.
- By 2022, rural areas on average were enjoying faster internet speeds than cities had done only three years previously. Nevertheless, internet speeds in cities have improved even faster, slightly widening the urban–rural gap. The Digital Decade policy programme 2030 provides for further investments in internet connectivity, with particular attention paid to rural areas.

Policy pointers

- The persistence of significant regional differences in rates of employment and incidence of telework may pose a risk of territorial divergence, with urban and capital areas disproportionately reaping the benefits of the digital revolution.
- The factors attracting employers, workers and infrastructure investment to cities – including economic dynamism, with deep labour markets, abundant business opportunities and good access to amenities and public services – are self-reinforcing and remain relatively constant over the short term. However, long-term regional industrial and innovation policies have the potential to change demographic and economic disparities between rural and urban areas by enabling regions to leverage their unique features and by deepening the understanding of place-specific opportunities.
- Rural areas face multiple and complex challenges in terms of economic and demographic decline, which internet connectivity alone cannot solve. Investments in transport infrastructure and in (essential) public services are also needed to prevent them becoming ‘lonely places’ (places that are vulnerable in terms of accessibility or connectivity, for example).
- While remote work can offer opportunities for relocation outside cities, urban areas continue to be very attractive to a large share of the population, especially among younger people. Public policy can do more to shape the transition to a more sustainable future for cities, to make them more liveable.

Further information

The report *Regional employment change and the geography of telework in Europe* is available at <https://eurofound.link/ef24018>

Research manager: Martina Bisello

information@eurofound.europa.eu