Europe’s labour market is in the odd position of feeling both too tight and too slack at the same time. Employers complain of chronic labour and skills shortages, yet millions of Europeans – especially the young, migrants and those in mid-career transition – struggle to find stable, well-paid work. The “jobs squeeze” facing Europe is not a simple story of too few jobs or too many workers; it is a structural bind in which the wrong workers are in the wrong places with the wrong skills, just as demographic ageing and technological change accelerate.

On the surface, Europe looks like a jobs success story. EU unemployment fell to about 5.9–6.0% in 2024–26, the lowest level since the time series began in 2009, and employment rates for 20-64 year-olds are near record highs. Long-term unemployment has also dropped to historic lows, with the share of people out of work for more than a year at just under 2% of the labour force. Yet this benign macro picture hides a more troubling micro reality.

Youth unemployment across the EU is still roughly 15%, with countries such as Spain and Sweden hovering around one in four young people out of work. In November 2024 more than 3 million under-25s were unemployed in the EU, even as firms reported increasing difficulty filling vacancies. The risk is a generation that experiences both joblessness and job churn, moving between temporary contracts, gig work and low-paid service jobs, never fully entering the secure core of the labour market their parents took for granted.

The demographic trap

Behind this paradox sits a quiet but relentless demographic shift. The EU’s working-age population is projected to shrink by roughly one million people every year up to 2050, even as the number of older retirees rises. The EU’s total population is expected to peak around the mid-2020s and then gradually decline, raising the old-age dependency ratio for decades to come.

This matters directly for the jobs squeeze. Fewer workers must support more pensioners and healthcare needs, while public finances strain to sustain welfare systems designed for a very different age structure. At the same time, employers in sectors like healthcare, elder care, construction and transport face waves of

retirements that are not being offset by younger recruits. Europe is not just short of workers today; it is structurally short of the future workers it needs.

If Europe’s problem were simply a lack of jobs, the policy prescription would be familiar: stimulate demand. But what policymakers and business groups describe instead is a labour market riddled with mismatches. For almost a decade, labour and skills shortages have been increasing in all member states, interrupted only briefly by the pandemic. A 2025 EU analysis notes that around 78% of companies, especially SMEs, report labour and skills shortages holding back their activities.

The European Commission has identified 42 occupations as EU-wide shortage roles, ranging from nurses and welders to software developers and electricians. EURES’ 2025 report on labour shortages paints a striking picture: severe shortages in skilled trades, healthcare, transport and logistics, while clerical and some administrative roles face surpluses – precisely the kinds of jobs most exposed to automation and artificial intelligence. In other words, Europe has too few people trained and willing to do vital but demanding jobs, and too many stuck in middling office roles that technology is slowly hollowing out.

Green, digital and the new skills divide

Overlaying these structural mismatches is the twin transition to a net-zero and digital economy. The OECD finds that labour shortages are significantly higher for green and ICT jobs than for other occupations, reflecting both strong demand and the novelty of the skills required. Only a small share of adults currently possess even basic digital skills, let alone the advanced capabilities needed in AI, cybersecurity or data-driven manufacturing.

European projections out to 2060 suggest that demographic change and shifts in skill demand will generate persistent imbalances between the occupational distribution of workers and the jobs on offer. Without aggressive upskilling and reskilling, the risk is a labour market split between a relatively small group commanding high wages in green and digital sectors and a much larger group trapped in low-productivity, low-wage roles or periodic unemployment. The jobs squeeze, in this sense, is about who gets access to the “new” jobs, not whether

such jobs exist.

Migration as necessity, not luxury

Demography and skills together point to an awkward truth: Europe cannot solve its labour shortages from domestic resources alone. Analysts warn of a looming skills crisis, with around three-quarters of small and medium-sized enterprises reporting difficulty finding workers with the right expertise, from healthcare to ICT. Migration policy is therefore not a peripheral humanitarian issue but core economic infrastructure.

The European Commission itself acknowledges this in its “Labour and skills shortages” action plan and in initiatives such as Talent Partnerships with non-EU countries. These schemes aim to combine legal pathways for workers and students with investments in training in partner countries, trying to create a pipeline of needed skills while sharing benefits more fairly. Yet as a Migration Policy Institute report argues, Europe’s current migration regimes still operate with a crude high-skilled versus low-skilled dichotomy that fails to recognise the value of “scarce”, “soft” and “super” skills – from care work to logistics – that are essential for a 21st-century economy.

The political mood, however, remains skittish. Anti-immigration sentiment and concerns about social cohesion all too often trump sober assessments of labour market needs. The result is a contradictory stance: employers quietly rely on migrant workers to staff hospitals, farms and logistics hubs, while governments underinvest in well-designed, rights-respecting legal channels to attract and retain this talent. Europe talks about strategic autonomy; it has yet to admit that in the labour market, autonomy increasingly means being able to compete for global talent.

One uncomfortable explanation for persistent shortages is that many of the jobs going unfilled are simply not good enough. The EURES report highlights transport and storage as a sector in long-running crisis, with low numbers of freight drivers despite growing demand. Long hours, social isolation, safety concerns and instances of bogus self-employment and undeclared work make these roles

unattractive, especially to younger workers.

The OECD likewise notes that shortages in green and care occupations cannot be solved by training alone if working conditions and pay lag behind other opportunities. In several EU countries, around one in five workers remain in low-pay jobs, even as higher-paying roles in more productive sectors grow. It should not be surprising that graduates hesitate to become nurses or electricians if those careers offer chronic understaffing, high burnout and relatively modest pay, while less demanding office roles still exist – at least for now.

Europe’s jobs squeeze is therefore partly self-inflicted: by tolerating poor job quality in critical sectors, governments and employers have created vacancies that cannot be filled on the terms currently offered. Raising wages, improving working time, investing in equipment and enforcement against abuse would make many shortage occupations more attractive long before any demographic miracle or technological fix arrives.

Nowhere is the tension more visible than in the experience of young Europeans. Youth unemployment stuck around 15% at EU level – and much higher in parts of southern Europe – coexists with calls for older workers to postpone retirement to keep systems solvent. At the same time, the EU’s own reports emphasise that recent employment gains have been driven largely by higher participation among women and older people, not by a dramatic improvement in prospects for the young.

The implicit intergenerational bargain – you pay in now and the system will look after you later – is becoming harder to sustain. Younger workers are asked to finance welfare states and transitions that may not fully benefit them, while navigating a labour market offering fewer permanent contracts, more housing precarity and delayed family formation. If Europe mishandles the jobs squeeze, it will not just lose a few percentage points of GDP; it could lose the political consent on which its social model rests.

What a serious strategy would look like

Confronting the jobs squeeze requires Europe to move beyond a collection of pilot projects and communiqués towards a coherent strategy that treats labour as the foundation of competitiveness, not an afterthought.

First, the continent needs a relentless, long-term investment in skills. That means fully embracing lifelong learning, modular training and apprenticeships, not as slogans but as funded entitlements that people can actually use mid-career. The EU already frames skills as a central pillar in its “Union of Skills” and competitiveness agenda; the test will be whether member states overhaul education and training systems fast enough to match the pace of green and digital change.

Second, migration policy must be dragged out of the culture-war trenches and into the realm of industrial strategy. That entails building stable, rights-based channels for workers across the skill spectrum, linked clearly to labour market analysis and to support for origin countries. Europe should be competing openly with North America and parts of Asia for nurses, engineers, care workers and technicians, not pretending it can fill all gaps at home.

Third, participation needs to rise not just at the margins but across under-represented groups – women, older workers, persons with disabilities and migrants – who still face barriers to full inclusion. That means childcare, flexible work, anti-discrimination enforcement and incentives for longer working lives that do not simply push exhausted manual workers to stay in the same jobs into their late sixties.

Finally, and perhaps most crucially, Europe must confront the quality of the jobs it is offering. The sectors with the worst shortages – care, construction, logistics, some green-transition roles – are precisely those where working conditions are often least attractive. Turning them into careers that young Europeans want will cost money and political will, but it is cheaper than a future of stalled investment because there are no workers to build houses, care for the elderly or install solar panels.

Europe’s jobs squeeze is not destiny. It is the product of choices about who is

allowed in, what is taught, which occupations are valued and how the burdens and benefits of transition are shared. The numbers already tell us the direction of travel: fewer workers, more older citizens, fiercer competition for talent. The real question is whether Europe will treat its labour market as a strategic asset to be nurtured – or as an afterthought to be managed once the next crisis hits.