Why European workers need to switch jobs, *The Economist*, September 18th 2025

Everyone agrees that Europe is slipping behind America and China—and everyone agrees that something must be done. Deciding what to do is the problem.

New research by European economists indicates that unsung reforms to the labour market might help. For decades Europe struggled with unemployment, which peaked in 2013 at almost 12%. It has now fallen to below 6%, owing to policies that made hiring and firing easier and reduced the lure of unemployment benefits, as well as stronger demand and an ageing workforce. Given that joblessness has been largely conquered, politicians today face a different challenge: boosting economic growth and innovation.

Labour markets function best when they match workers with jobs appropriate for their talents—a process that often involves employees moving between companies. When switching jobs, workers learn and teach new skills, helping ideas diffuse across the economy. They also enable more productive firms to expand faster, in turn raising wages. The problem is that Europe is a land of settlers. One in four Europeans has been with their employer for longer than two decades, compared with just one in ten Americans. Work by Niklas Engbom of New York University, using detailed Swedish data, finds that older workers are less likely to switch employers, suggesting that the problem will worsen as the continent ages.

Long tenures once made sense. In an economy safe from disruption, businesses benefit from highly qualified, specialised workers and are willing to spend money training them. The labour-market practices that fit with such an economy—including high firing costs, tenure-related benefits and collective bargaining—are quintessentially European. But they fit neither the economy that policymakers are attempting to build, nor an age of tariffs and increasingly fierce Chinese competition.

Defenders of the status quo argue that within-company job changes and innovation will be sufficient to meet present challenges. If artificial intelligence makes training younger workers unprofitable for American businesses, the long attachment in European labour markets may still mean it is worthwhile on the continent. However, the bigger risk could come from the opposite direction. “There is...path dependency. Firms are very reluctant to change the type of technology, and focus on incremental improvements instead,” notes Antonin Bergeaud of HEC Paris, a business school. “The more you attach your worker to your firm, the more you reward that behaviour.”

How could policymakers encourage labour-market fluidity? One option is to ensure that benefits, such as pensions and severance pay, are portable and unrelated to employee tenure. Another is to untie collective bargains between unions and employers that set wages according to length of time spent at a firm. The third option is to make unemployment benefits eligible to those who have quit, not just been fired from, their job. To encourage job switching, subsidies that incentivise companies to hoard labour, such as furlough schemes, should be limited to crises.

There are, therefore, plenty of ways that the European labour market could be made more vibrant. The workers of Europe may lose their seniority-related benefits. They do, however, have higher wages to win.