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Policy Insights

Firms short of talent, workers short of opportunity: Europe needs to rethink its labour market strategy

By **Guillaume Marois** and **Michaela Potančoková**

Europe is struggling with a substantial skill mismatch: Across the region, firms cannot find the workers they need while overqualified graduates are underemployed or out of work entirely. The tools to address this exist, but they sit in portfolios of separate ministries that rarely work in concert.



Source: Edmond Dantes / Pexels

Europe is producing more university graduates than ever before. Yet across IT, healthcare, engineering, and professional services, employers continue to report the same struggle: the people they need are not available. At the same time, many highly qualified workers are employed well below their level, or not at all.

What makes this news for policy is not the mismatch itself, which has been documented for years. Some degree of vacancy and underutilisation of working force is a normal feature of any dynamic labour market.

Rather, the [news from research](#), specifically evidence from demographic and labour market microsimulations, is that standard policy responses can

alleviate particular labour market imbalances, but often generate or intensify imbalances elsewhere when implemented in isolation.

No single lever is sufficient. Together, they may be

Migration, later retirement, better education, and automation are central in the current policy debates. Each has a measurably beneficial effect on labour market imbalances.

Specifically: Migration brings new workers, later retirement keeps experienced workers with high level skills from draining out of companies, and better education and automation tend to increase per capita productivity.

In short, the problem is not that these levers are ineffective. Rather, when applied in isolation, they often alleviate one form of labour market imbalance while creating or intensifying another.

Some examples: While migration expands the labour force, it simultaneously increases demand across multiple sectors of the economy, creating additional employment needs and thereby shifting labour shortages rather than eliminating them entirely.

Later retirement keeps experienced workers in the economy longer without significantly crowding out others, but will be insufficient on its own in future aging societies.

Automation can reduce unfilled vacancies, particularly in high-skill sectors, but it may also increase the number of underutilised workers unless accompanied by substantial reskilling and job-transition support.

Similarly, human capital strategies can reduce shortages in highly skilled occupations, but may also deepen recruitment difficulties in medium- and lower-skilled sectors as workers move upward in the occupational structure.

An integrated approach, not a larger one

The case for integrated strategies is stronger than the individual evidence for any single lever. Rather than maximising individual policy levers in isolation, policymakers need strategies that manage the trade-offs and interactions between them.

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Education, migration, retirement policy, and automation are typically governed in separate ministerial portfolios and debated as separate questions. The evidence suggests this separation is part of the problem.

Bringing Europe's mismatches back within acceptable bounds requires designing labour market, education, and automation strategies that reinforce rather than undercut each other — across ministerial portfolios, across the working life, and with employers as active partners.

Acknowledgement:

This publication is part of the Link4Skills project, which has received funding from the European Union's Horizon Europe research and innovation programme under grant agreement 101132476.



Additional Information

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Source

Marois, G., Potančoková, M., Bezat, A. & Crespo Quaresma, J. (2026). [Projecting Labour Market Imbalances and Skill Mismatch Under Demographic Change in the EU](#). *European Journal of Population*, 42(4).