

# WZB

Berlin Social Science Center

Discussion of paper

“Eurosclerosis at 40:  
Labor Market Institutions,  
Dynamism, and European  
Competitiveness”

by Benjamin Schoefer

July 1, 2025 · ECB Forum on Central Banking

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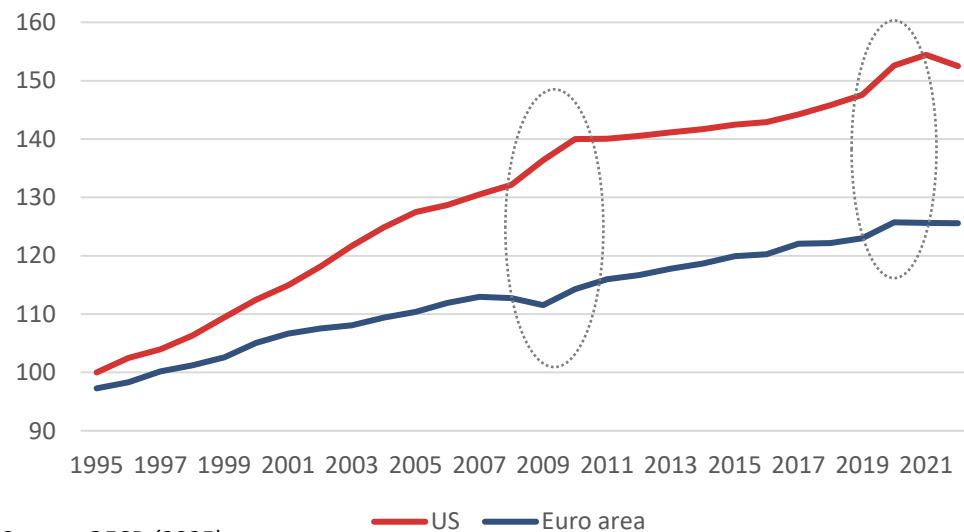
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# I. Summary and Additional Evidence

# Intellectual History: From Labor Market Rigidities to Other Rigidities

## GDP per hour worked in Euro Area and the US

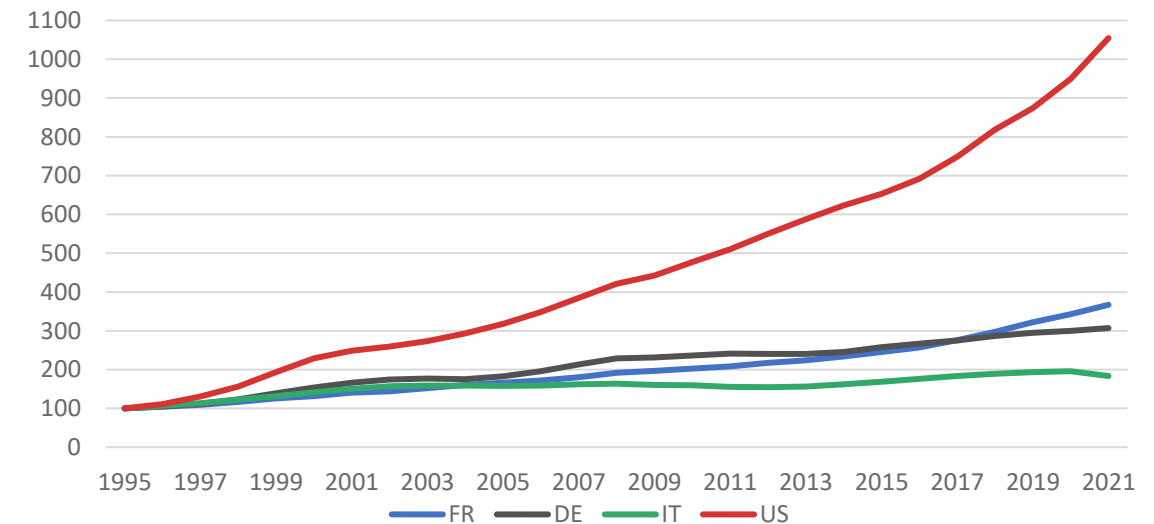
US 1995=100



Source: OECD (2025)

## Real IT-related capital stock

1995=100



Source: EU KLEMS (2025)

Since early 2000s:

- **Sluggish productivity growth** in Europe
- Low investment in **new technologies**
- But **unemployment rate under control** (with exception of Euro debt crisis)

⇒ Focus shifted from labor market institutions to other institutions, e.g. innovation policies, capital markets

# Labor Market Institutions Still Matter!

## Shifting Focus from Unemployed towards Employed Individuals

- Focus of policy reforms of **1990s** (high unemployment rate):
  - Policies **targeted towards unemployed** individuals:
    - Duration and level of unemployment insurance
    - Active labor market policies
- For **sluggish productivity growth** and **lack of disruptive innovations** since mid 1990s:
  - Policies **targeted towards employed** individuals important:
    - Employment protection regulation
    - Codetermination
    - Occupational licensing

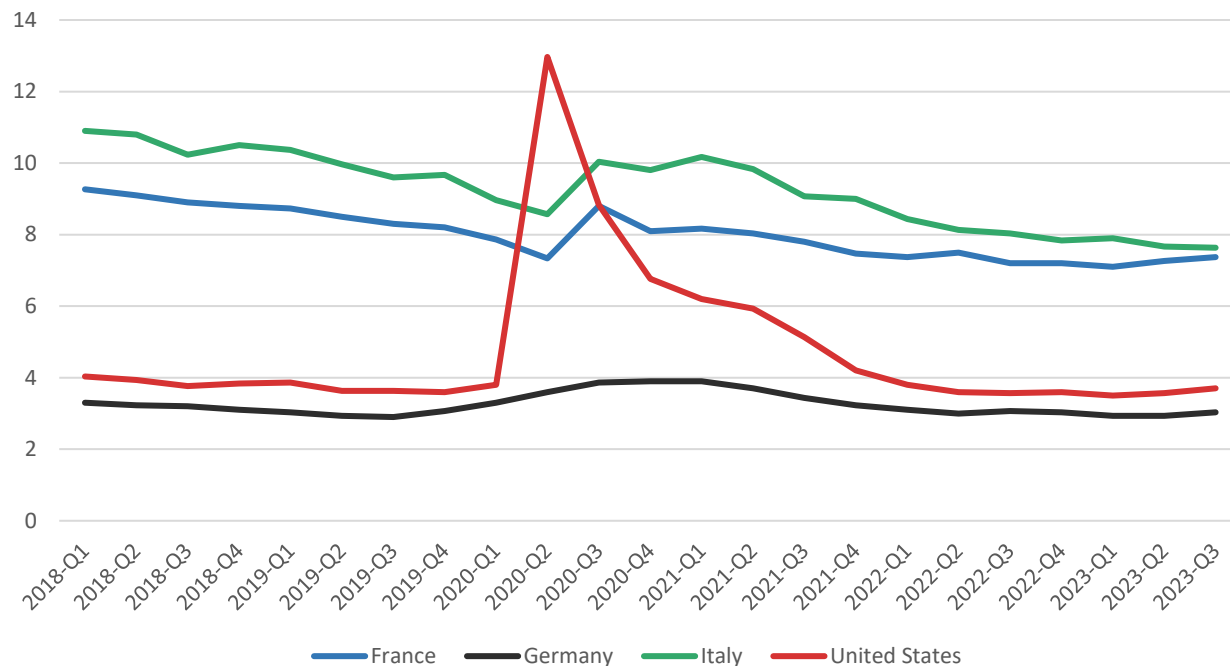
⇒ These policies protect job matches and inhibit „experimentation“, which is crucial for disruptive innovations

⇒ Job transitions (with or without unemployment) as engine of growth in period of transformation

# Example: Labor Market Responses to Covid Crisis in Europe and US

## Unemployment rate

2018 – 2023, quarterly



Source: OECD (2025)

## Covid shock responses:

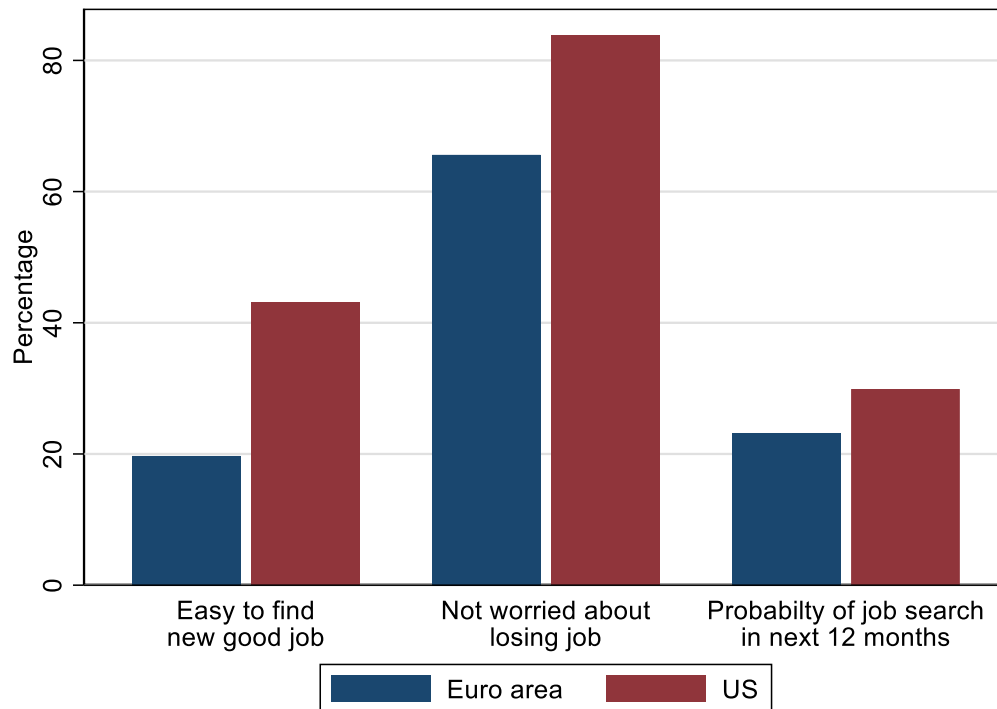
- **US: Firing and hiring**
  - Firms engage in “upskilling” of work force  
(Hershbein and Kahn, AER 2018)
- **Europe: Policies maintaining worker-firm matches** (e.g. short-term work)
  - Maintain firm-specific human capital, which is beneficial in stable times, but not conducive to technological change  
(Fuchs-Schündeln and Lacava, ongoing work)

## II. Challenges Faced by European Labor Markets

# Labor Market Institutions and/or Cultural Differences as Impediment to Dynamism?

## Ease of finding a new job, job loss worry, and job search probability

Percentage positive answers



Americans:

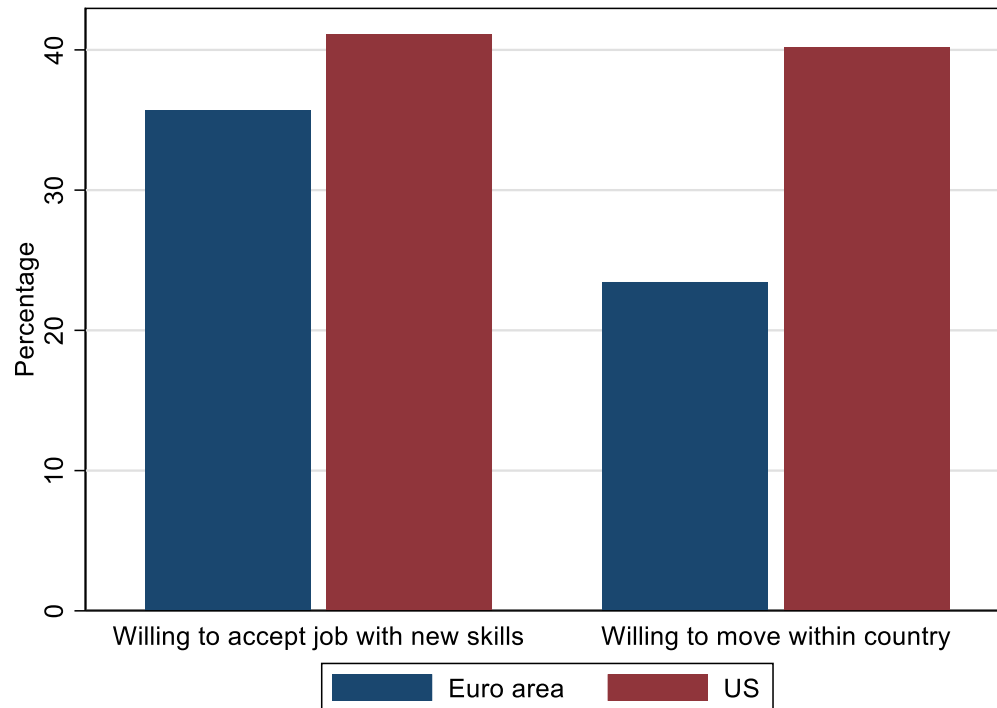
- Perceive it as **easier to find new good job**
- Are **less worried** about losing job
- Have a **higher probability** to engage in **job-to-job search**

⇒ In line with more flexible labor market institutions

# Labor Market Institutions and/or Cultural Differences as Impediment to Dynamism?

## Willingness to accept job with new skills and to move within country

Percentage positive answers



Upon unemployment, Americans are more likely:

- To **accept job requiring new skills**
- To **move within** (much larger!) **country**

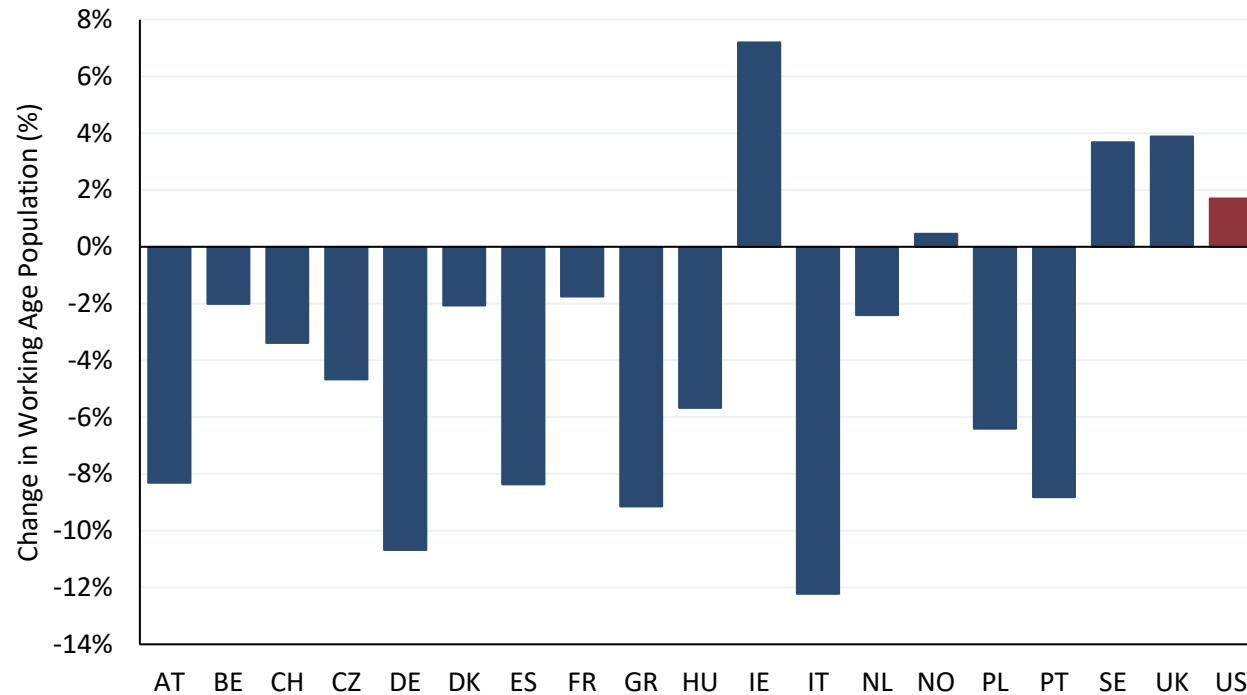
⇒ In line with different mindset/culture

⇒ Institutions affect culture (Alesina and Fuchs-Schündeln, 2007)



# Demographic Change Puts Pressure on European Labor Supply

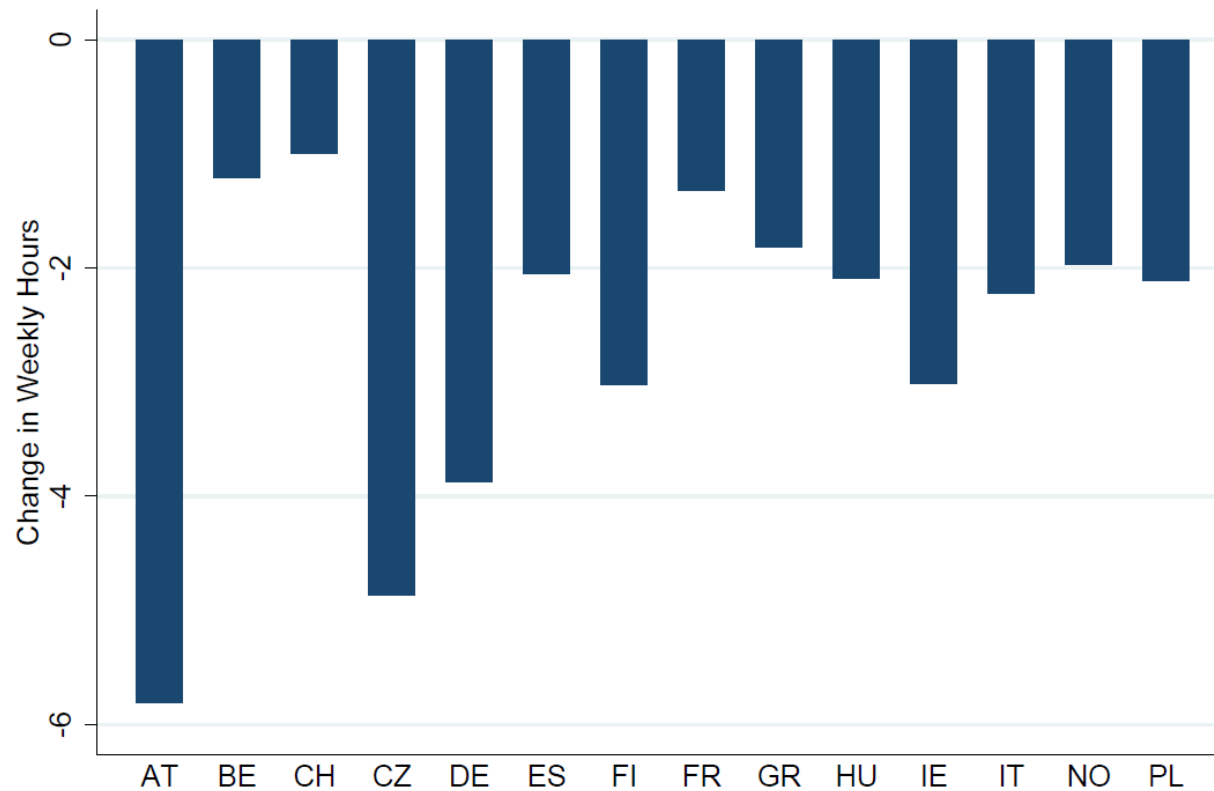
Predicted percentage change in working age (15-64) population, 2024-2035



Source: United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects: The 2024 Revision, custom data acquired via website

# Hours Worked per Employed Person Decreasing in Europe

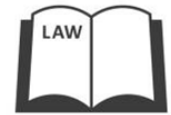
Change in weekly hours worked per employed person, 1997/99-2022/23



Source: EULFS, own calculations; see also Bick, Blandin and Fuchs-Schündeln (2022)

# Interplay of Decreasing Labor Supply and Labor Market Dynamism?

- **Decrease in labor supply increases bargaining power** of workers and unions
- Could result in demand for **more labor market regulation**
- At the same time: **period of substantial structural change** ahead of us
  - Digital transformation / AI
  - Green transition
- Potential way forward: **Dual system** of labor market regulation for low vs. high income earners?

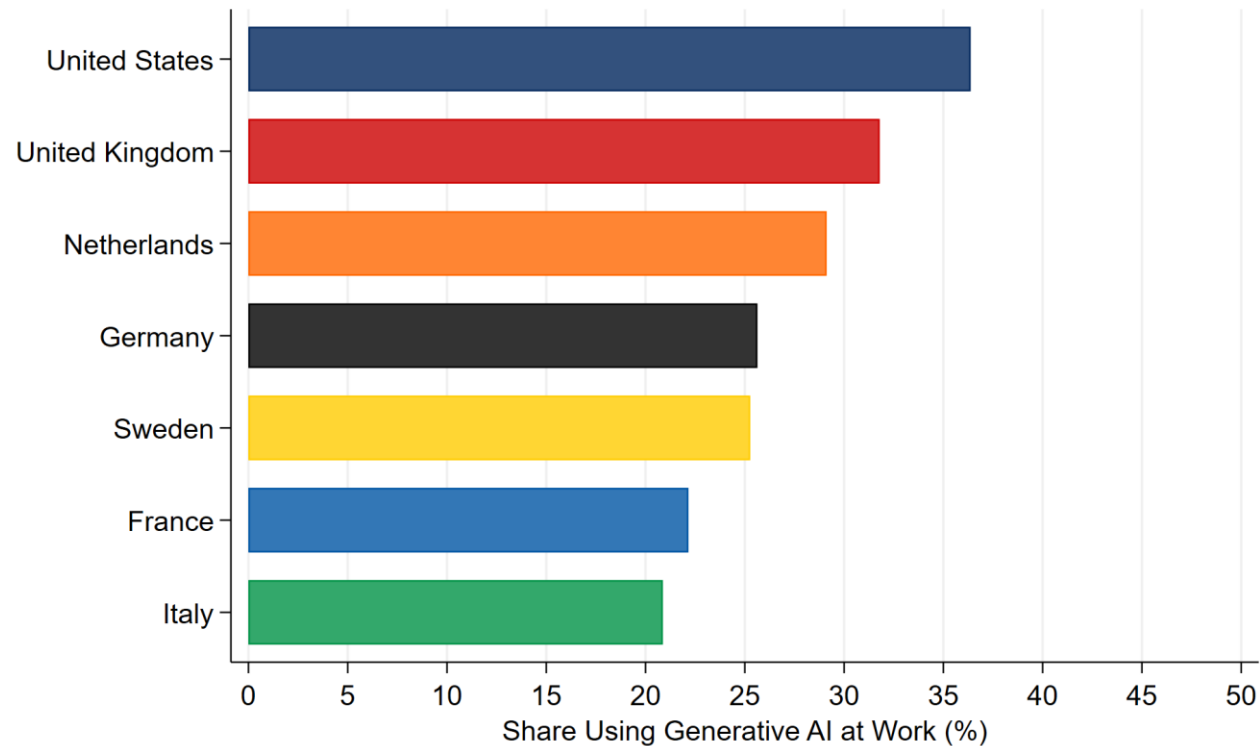


### III. Labor Market Fluidity and Technology Adoption: The Case of AI

# 2025: Europe Lags Behind in AI Usage at Work

## Share using generative AI at work

May/June 2025

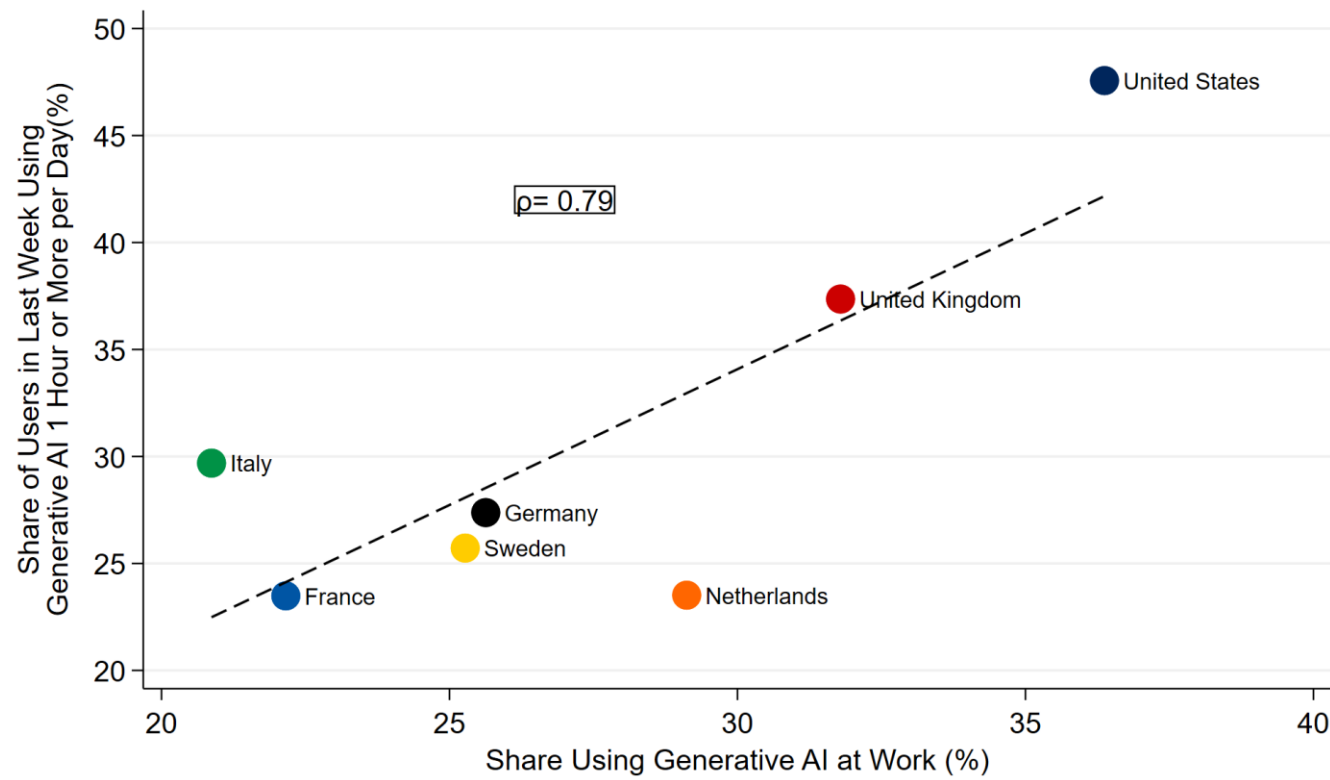


Source: Bick, Blandin, Deming, Fuchs-Schündeln, and Jessen (own survey, ongoing work)

# Europe Lags Behind in Extensive and Intensive Margins of AI Usage

## Share using generative AI at work and AI usage intensity at work

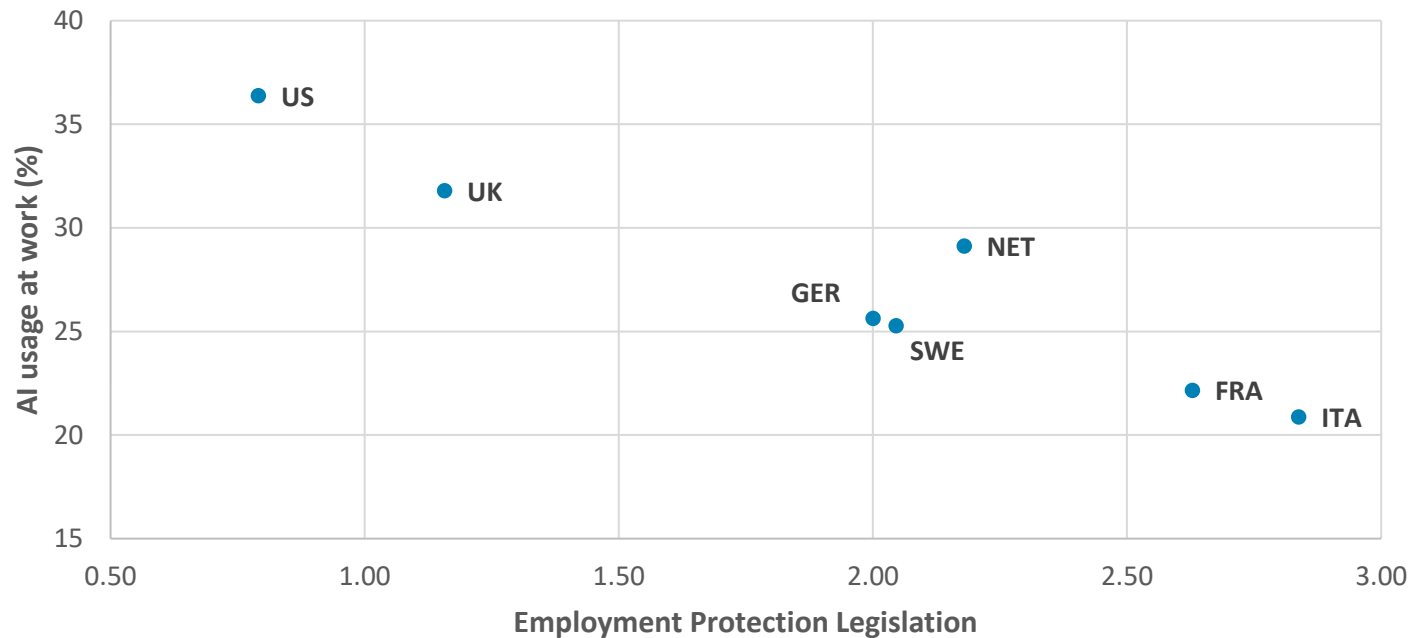
May/June 2025



Source: Bick, Blandin, Deming, Fuchs-Schündeln, and Jessen (own survey, ongoing work)

# Negative Correlation Between AI Adoption and Employment Protection

## AI usage at work versus employment protection legislation



Source: Bick, Blandin, Deming, Fuchs-Schündeln, and Jessen (own survey, ongoing work) and OECD (2025), *Strictness of employment protection, Version 4 (2019)*

## IV. Conclusion



# Conclusion

- Symptom: **Sluggish productivity** growth and **low rate of investment in new technologies** in Euro Area
- Diagnosis: Paper shifts **focus from lack of business dynamism to lack of labor market dynamism**
  - Not only creative destruction of firms matters, but also creative destruction of job matches
  - Employment protection prevents risky, disruptive innovations
- Implications:
  - For policy makers:
    - Do not lose sight of **labor market reforms**
    - Focus on encouraging **job transitions**, continuous learning
  - For central bankers:
    - **No easy way** out of low potential growth
    - Expect **rising bargaining power of workers**, which could lead to inflationary pressures
  - For researchers:
    - More causal analyses of **labor market institutions and growth/innovation**

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Thank you for your  
attention

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