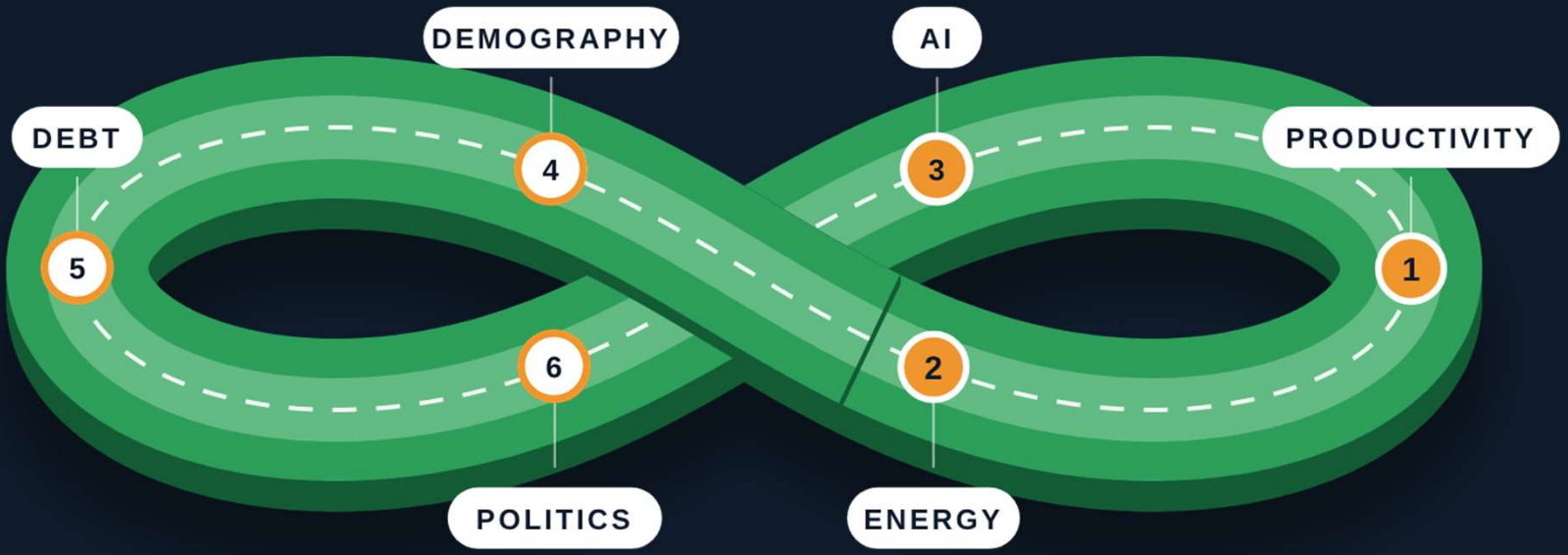
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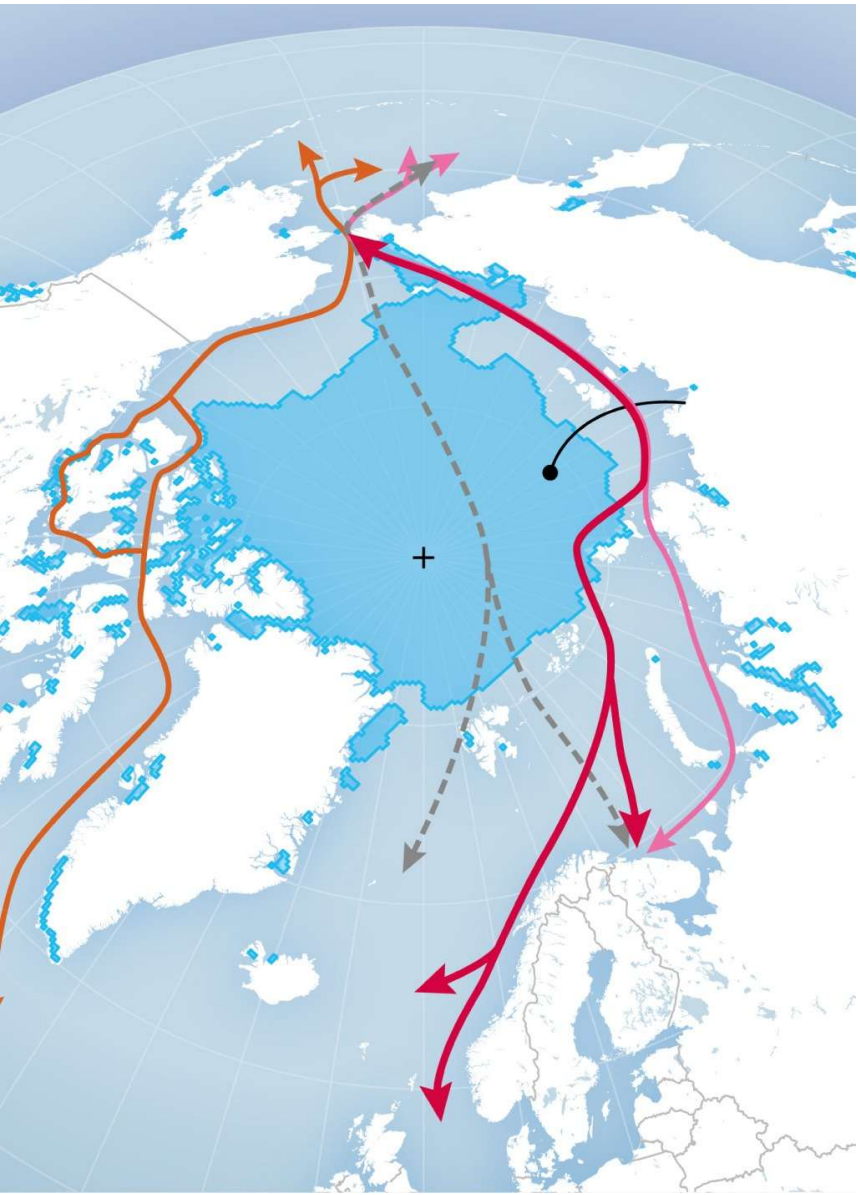
Europe's Economic Travails

Six drags on growth, and how they feed each other



Asle Toje
Thursday 15 October 2026

● Core dimensions ○ What follows



GEOPOLITICS

The triple crisis that is 2026

Culture war, the end of an economic supercycle, and great-power politics.

CULTURE	Culture divides more than it unites. Virtue signalling is now risky. Do as Hollywood does.
TECHNOLOGY	AI will upend the job market. This time, the tech revolution will hit the highly educated.
POWERS	The US is drifting away from Europe. Russia will remain dangerous. China is a 'risky bet'. New pastures in India and Mercosur.
EUROPE	Europe is no longer the trailblazer; we are the exception. Our penchant for projecting is our weakness.
STATUS QUO	This is not a crisis; it is the new normal. The unique circumstances that took Europe to the top have changed.
BUSINESS	Geopolitical turmoil makes framework conditions less predictable, raises costs and demands more flexible, risk-aware leadership.
NOBEL 2026	Fittingly, New Keynesians Robert Hall and Michael Woodford win the 2026 economics Nobel for keeping economies on an even keel.

PRODUCTIVITY

The transatlantic productivity gap

1

30%

EU–US GDP gap in 2023 at constant 2015 prices, up from just over 15% in 2002. On a PPP basis, a 12% gap has opened.

70% of the per-capita gap with the US is down to weaker productivity (Draghi's estimate)

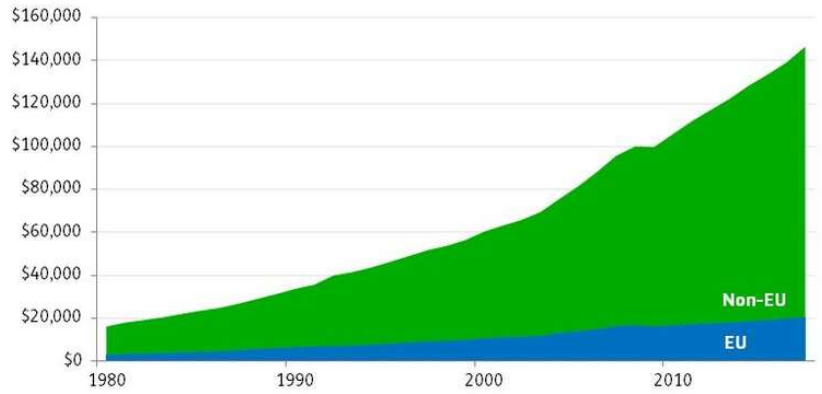
€270bn less spent on R&I by EU companies than by their US counterparts in 2021

5% of global venture capital is raised in the EU, against 52% in the US and 40% in China

4 of 50 of the world's top 50 tech companies are European

EU's falling share of the world's economy (PPP)

World economic output* and EU economic output**, measured in international dollars, including IMF forecasts for 2016 and 2017



*More of the world's economy is accounted for in later years. The IMF publishes estimates for 190 countries in 2017, but only for 146 countries in 1980.

**The EU's economic output includes countries which were members of the EU in each particular year, rather than EU 28 countries.

Source: IMF World Economic Outlook (October 2016)

Full Fact

Sources: M. Draghi, The future of European competitiveness (European Commission, Sept 2024). Chart: Full Fact, from IMF World Economic Outlook (Oct 2016), incl. IMF forecasts for 2016–17.

INDUSTRY AND ENERGY

Industrial decline and the energy crisis

2

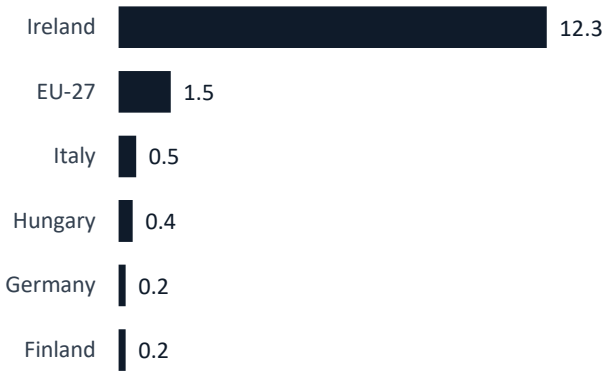
The German engine stalls

Europe's industrial powerhouse grew just 0.2% in 2025, squeezed by energy costs and global competition.

A two-speed Europe

Service-led economies like Ireland surged. The industrial core (Germany, Italy, France) stayed stuck.

Real GDP growth, 2025 (%)



Ireland inflated by multinational activity.

Two pressures

Energy: electricity costs 2–3× US prices, gas 4–5×

China: goods surplus with the EU has doubled since 2019, to $420bn

THE DAMAGE IS CONCENTRATED

16% manufacturing's stable share of EU value added

4/5 of lost EU factory jobs are in Germany

+7% high-skilled factory jobs since 2023

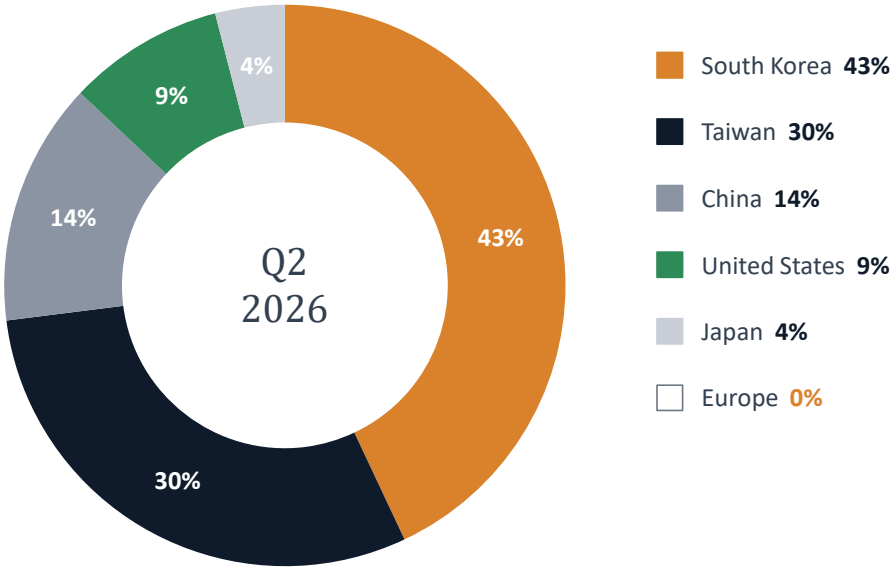
Sources: Eurostat (6 Mar 2026); Istat (Mar 2026); Draghi report (Sept 2024); The Economist, 'European industry is doing better than you may think' (27 Sept 2026).

ARTIFICIAL INTELLIGENCE

Slow horse: Europe and AI

3

ASML net system sales by region, Q2 2026



0%

Europe's share of ASML's net system sales, Q2 2026. ASML's explanation: no chip factories are being built in Europe.

"We are not in the race today. We are lagging behind."
Emmanuel Macron to CNN, February 2025

Europe risks regulating "things that we no longer produce or invent."
Emmanuel Macron, Toulouse, December 2023

3–5%

Europe's share of global computing power (CNN, 2025)

$285.9bn

US private AI investment in 2025, against $12.4bn in China

Sources: ASML filings, via Bloomberg; ASML (F. Heemskerk), Dutch TV, 2026; CNN, 9 Feb 2025; Brussels Signal, 12 Dec 2023; Stanford HAI, AI Index 2026.

DEMOGRAPHY

The demographic fate

4

"Demography is destiny." Attributed to Auguste Comte

Working-age people per person aged over 65, EU

Today 

2070 

Three today; fewer than two by 2070.

Births per woman, 2024 (replacement level: 2.1)

1.34
EU, a record low

1.60
United States

1.72
Bulgaria, highest in the EU

Nearly 2m

fewer workers each year by 2040, as the EU workforce shrinks

11.4%

of EU GDP went on public pensions in 2022, rising to 11.8% by 2070

0.8%

euro-area potential growth in the early 2030s, as labour input shrinks

AGEING MAY COST LESS THAN FEARED

- Health spending per person in rich countries outside the US is forecast to grow about 2% a year this decade, half the pre-2009 pace.
- Where fertility fell faster, productivity grew faster, as firms adopted labour-saving technology (US evidence).

"Demography need not be destiny after all." The Economist, July 2026

Sources: 2024 Ageing Report (EU Council/Commission); Draghi report (2024); ECB Economic Bulletin 5/2024; Eurostat (Mar 2026); CDC/NCHS (2025); The Economist (9 Jul 2026).



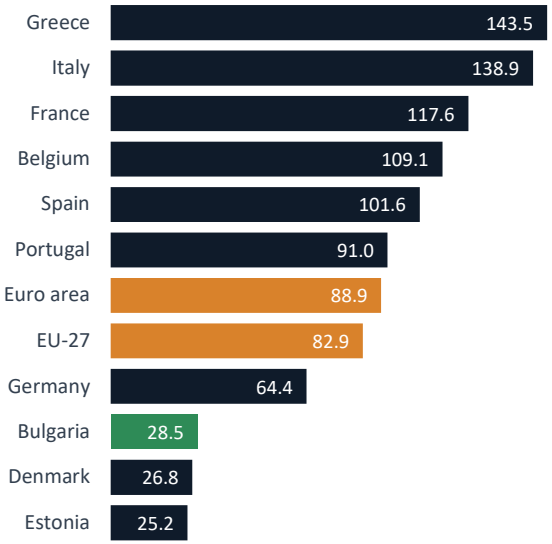
PUBLIC DEBT

Debt in Europe

5

"America has the bigger debt, Europe has the bigger debt problem."
The Economist, 3 September 2026

Government debt, % of GDP, Q1 2026



88.9%
euro-area debt in Q1 2026 (EU 82.9%). Five member states are above 100% of GDP.

4.2%
France's 10-year yield: an 18-year high, above Italy's, close to 1 point over Germany.

118%
French debt-to-GDP, with the economy flat in the latest quarter.

2027
elections in France, Greece, Italy and Spain. Joint EU borrowing now looks less likely.

Sources: Eurostat (21 July 2026); The Economist (3 Sept 2026). Cover: The Economist, 10 Oct 2026.

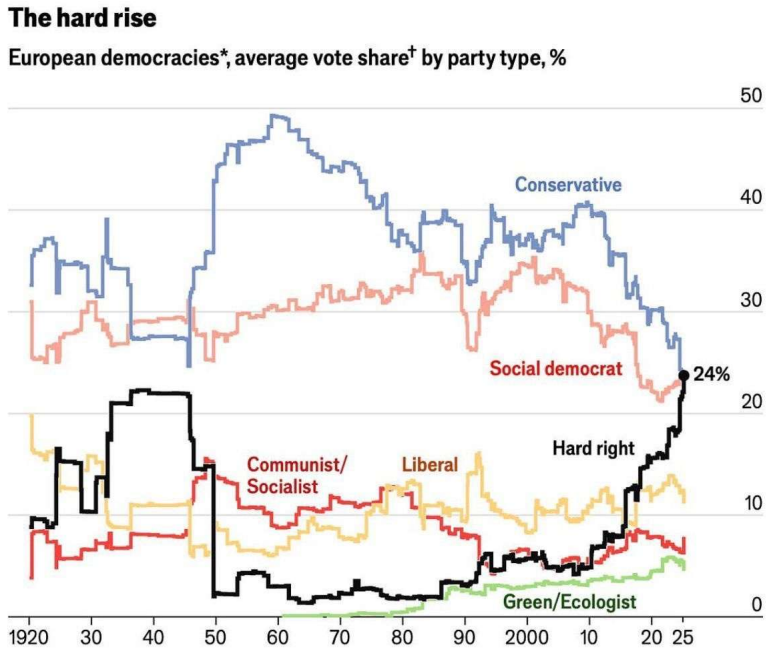
POLITICS

The fraying centre and the rise of the hard right

24%

Average hard-right vote share across Europe's democracies, now level with the conservatives (population-weighted, most recent national elections).

- **Conservatives** from almost 50% around 1960 to about 24% today.
- **Social democrats** in the low 20s, down from about 35% at their peaks.
- **The two centre families** now poll below 50% combined.
- **The far left** has not followed: communists and socialists remain under 10%.



Source: The Economist, from national elections, Our World in Data, ParlGov and The PopuList. EU-27 plus Britain, Iceland, Norway and Switzerland.