Flash Economics

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Europe's decline is global

Europe is facing a decline that is affecting all aspects of its economy:

- Demographic decline;
- Declining labour productivity, and hence Europe's declining weight in the global economy;
- Technological decline, with low investment in new technologies and Research & Development (R&D);
- Industrial decline, with competition from emerging countries and the United States;
- Decline in economic sovereignty, with Europe's dependence on raw materials and digital technologies;
- A decline in skills, both for young people and adults.

Emerging from this multi-faceted decline would appear to be an insurmountable task.

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Demographic decline in Europe

The **fertility rate** (the number of children per woman) has fallen well below 2 in Europe (**Chart 1**), which means that, unless family policies and massive recourse to immigration are put in place, we can expect a decline in the European population, and **even more so in the working-age population** (**Chart 2**).

Chart 1
European Union: Fertility rate (births per woman)

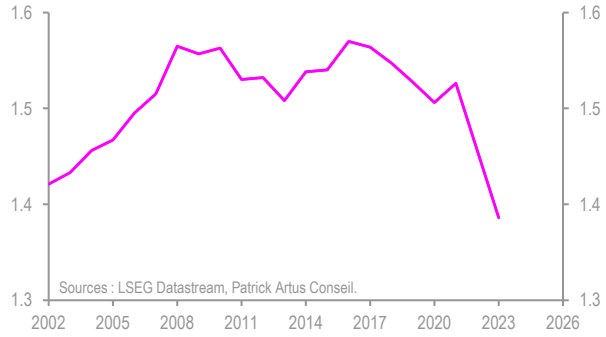
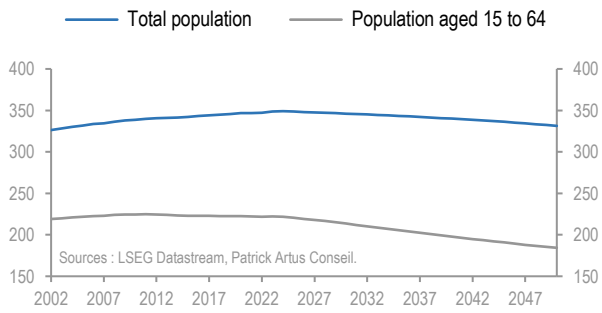


Chart 2
Euro zone: Total population and population aged 15 to 64 (in millions of inhabitants)



Decline in labour productivity

Labour productivity has been stagnating in Europe since 2017 (**Chart 3** shows labour productivity in the euro zone), and this, combined with the decline in the working-age population, is weakening Europe's GDP.

As a result, **Europe's weight in the global economy continues to decline** (**Chart 4**).

Chart 3
Productivity per head (2002.Q1 = 100)

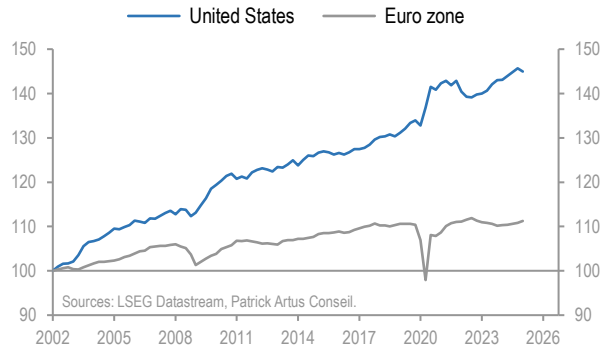
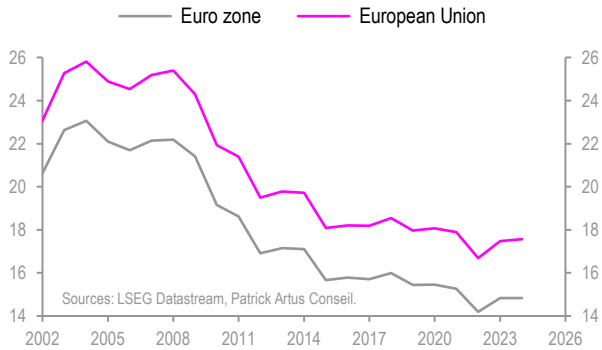


Chart 4
Nominal GDP (as % of world GDP)



Technological decline

Technological decline can be seen in the weakness of R&D, particularly business R&D (Charts 5A/B), and in the weakness of investment in new technologies (Chart 6).

Chart 5A
Total R&D spending (as % of nominal GDP)

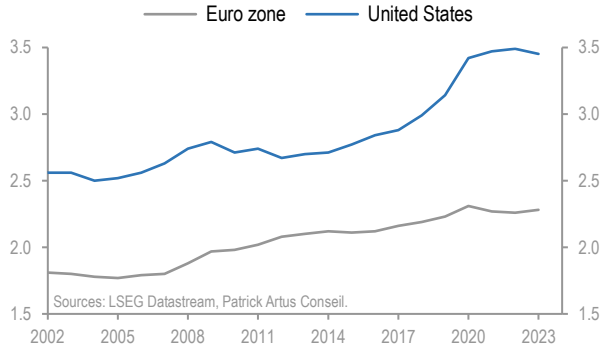


Chart 5B
Corporate R&D spending (as % of nominal GDP)

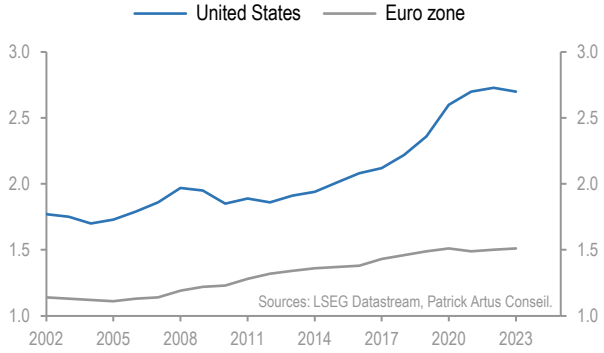
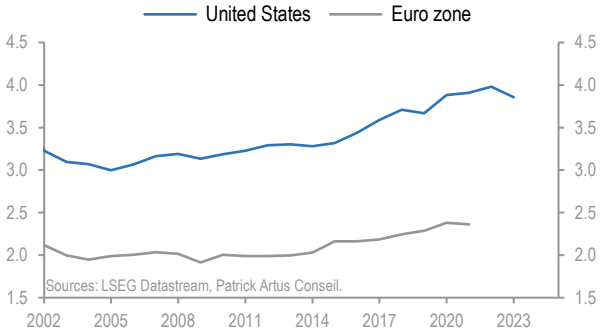


Chart 6
ICT investment including software
(in value terms, as % of nominal GDP)



In terms of revenue, the seven largest US technology companies (the Magnificent Seven) generate 17.5 times more revenue than the largest European technology companies.

The US technology industry's share of the world market is 35%, while that of the European Union is just 22%.

Industrial decline

Chart 7 shows the weight of manufacturing in the euro zone GDP.

Chart 7
Euro zone: Real value added in manufacturing
(as % of real GDP)



We can see the decline in the weight of industry in the euro zone GDP, with competition from emerging countries and, in the recent period, with the IRA (Inflation Reduction Act) and the customs duties introduced by Donald Trump, which are pushing part of European industry to relocate to the United States.

The decline in European industry can be partly explained by the **poor level of robotisation in European industry** (**with the exception of Germany**) (**Table 1**)

Table 1: Robots installed per 10,000 employees in fhe manufacturing industry (2023)

Country	Robots installed per 10,000 employees
South Korea	1012
China	470
Germany	429
Japan	419
Sweden	347
Denmark	306
Slovenia	306
Switzerland	302
United States	295
Netherlands	264
Austria	245
Italy	228
Canada	225
Belgium	224
Czech Republic	207
Slovakia	201
France	186
Spain	174

Source : World Robotics 2024

Decline in economic sovereignty

Europe:

- Produces only 25% of its medicine;
- Spends just 13 billion Euros on space, compared with 73 billion U.S. Dollars in the United States;
- Is entirely dependent on China for its supply of rare earth metals and 93% for magnesium. It also imports 99% of its boron and 62% of its antimony from Turkey, and 71% of its platinum from South Africa, which also supplies iridium, rhodium and ruthenium. In addition, 68% of the cobalt it uses comes from the Democratic Republic of Congo, 78% of its lithium from Chile, and 71% of the phosphorus it consumes comes from Kazakhstan. Europe could at least exploit its natural resources, such as lithium;
- Spends just 10 billion Euros on defence R&D, compared with 140 billion U.S. Dollars in the United States;
- Is home to only 4 of the 50 largest new technology companies;
- Occupies a marginal position in world semiconductor production, a sector largely dominated by South Korea (25% of world production), China (22%), Taiwan (22%) and Japan (13%);
- Is almost totally dependent on imports for oil and natural gas.

All these examples show that Europe is not ensuring its economic sovereignty in many key areas.

Decline in the skills of young people and adults

When we look at the scores of the OECD's **PISA survey** on young peoples' skills (**Table 2**) or the scores of the **PIAAC survey** on adults' skills (**Table 3**), **we see the low level and the decline in the skills of the major European countries**, even Germany in terms of young peoples' skills.

Table 2: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Canada	522	523	517	506
Finland	529	523	516	495
United Kingdom	502	500	503	494
United States	n.d	488	495	489
Sweden	482	496	503	487
Germany	515	508	500	482
Netherlands	519	508	502	480
France	500	496	494	478
Spain	490	491	482	477
Italy	490	485	477	477

Source : OECD

Table 3: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Canada	269	267
Germany	271	267
England (UK)	267	266
France	258	253
United States	261	251
Korea	268	246
Spain	249	246
Italy	249	240

*In 2016, average score in numeracy and literacy
Source : OECD

Summary: Europe's ambitions seem very difficult to achieve

Europe wants to re-industrialise, catch up with the United States in new technologies, and ensure its strategic independence in critical materials, medicine and digital technologies.

But we need to realise the extent of Europe's handicaps:

- demographic decline ;
- stagnating productivity ;
- weak technological development ;
- industrial decline, insufficient robotisation ;
- lack of economic sovereignty in many areas (digital, critical materials, etc.);
- declining skills levels among young people and adults.

Correcting these handicaps and pulling Europe out of global decline seems to be an extremely difficult task

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