

Editor's Letter

Europe's Moment for Revival

NOT MANY PLACES match the European Union for quality of life. Its workers enjoy more time off than in many other regions, yet their living standards are among the highest. Its core values of solidarity are exemplified in social contracts that ensure the state will care for those who need it.

Yet lately the EU has lost confidence in its economic model. Wealthier than China and more populous than the United States, it has been trailing both in growth and has fallen back in technological innovation since the global financial crisis. The growth gap is widening as the continent's workforce shrinks, productivity stagnates, and trade tensions rise. And now governments are scrambling to boost defense spending to rely less on the United States for their security.

Can the EU rouse itself to meet the challenges of a new era marked by rapid geopolitical shifts and policy uncertainty? In this issue of *Finance & Development*, we examine that question in depth.

Alfred Kammer, head of the IMF's European Department, argues in our lead article that the case for closer economic union is more compelling than ever. A stronger single market could help deliver both faster growth and greater security, he writes.

It's no secret what must be done. Europe has a road map, laid out in reports by former Italian Prime Ministers Mario Draghi and Enrico Letta. Both focus on how to make the EU more competitive and productive. Key priorities include boosting innovation, supporting businesses, and enhancing economic security by consolidating fragmented markets, particularly in defense, energy, telecoms, and finance. And yet, asks Simon Nixon, will member states overcome distrust of each other and of EU institutions?

The lack of a unified financial market is one of the obstacles, according to Ravi Balakrishnan and Mahmood Pradhan. A single capital market will only lead to a larger pool of savings if Europe also completes its banking union, and investment will only rise if firms expect higher returns. This, in turn, requires much less fragmentation, less red tape, and more uniform regulation across the union.

Europe's largest economy underscores the malaise.



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Germany's economy has barely grown since 2019, while the US expanded 12 times as much—and 3 times more than the euro area. To catch up, Germany's leaders have already reformed the “debt brake,” a constitutional cap on public borrowing, and must now open up the economy to future-oriented investment and overcome chronic labor shortages, say Claudia Schaf-franka and Ulrike Malmandier.

Despite overall stagnation, some economies are showing greater vitality. Poland's successful economic transformation can inspire the continent today, says its finance minister, Andrzej Domański. Sweeping restructuring has turned Greece—which emerged from a debt crisis not so long ago—into one of Europe's fastest-growing economies, writes former finance minister Konstantinos Hatzidakis. And Spain has found the sweet spot between strong growth and social progress with sustainable public finances, according to its finance minister, Carlos Cuerpo.

A special report in this issue of F&D investigates the policy implications of falling fertility and rising longevity. How to manage the shrinking numbers of workers relative to retirees is a concern in many parts of the world, but especially in Europe.

Europeans know that the moment to revive their economic might has arrived. They know they must unite to shape today's global economy, rather than be shaped by it. And they can aim to do so by remaining true to their values. **F&D**

Gita Bhatt, editor-in-chief