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RAISING THE BAR

HOW TO TRANSFORM EUROPE INTO A HIGH GDP GROWTH CONTINENT

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The Growth Commission

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1. Europe is currently the world's GDP growth laggard

Since the Renaissance, the world's structures have predominantly been created and codified by European hands – or more recently those of their cousins in the United States. This prominence has many routes from technological leadership to the rule of law; from industrialisation and military security to educational and scientific discovery; from relative political stability to strong social and economic capital.

While it is beyond the scope of this paper to delve into an historical analysis as to what made Europe a leader for centuries in almost all spheres of life, it is clear that this dominance passed across the Atlantic to the U.S. in the 20th century. American ideas, however, are generally considered to be an offshoot of European philosophy of governance, economy and law. It could be said that U.S. permanence is broadly a continuum.

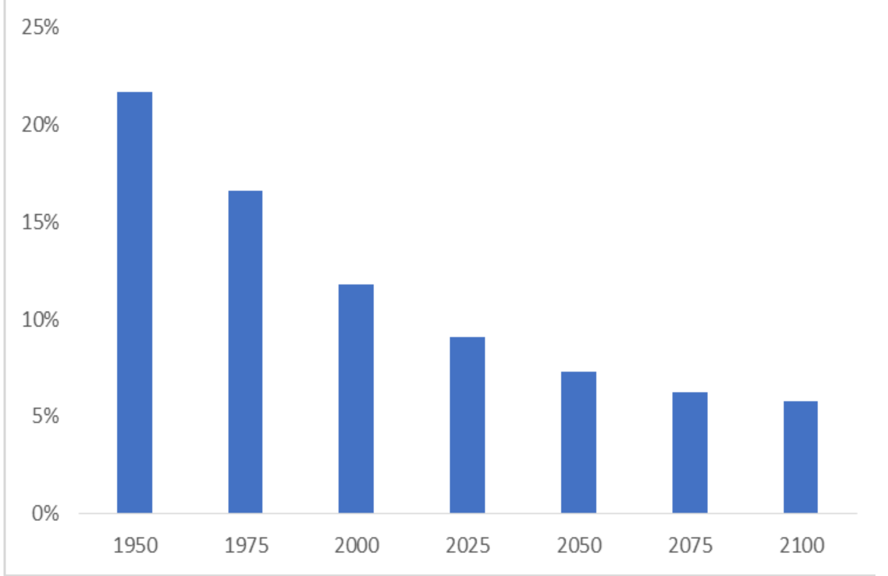
Today, in the early 21st century, it is an open question as to whether Europe can not only maintain a decent standard of living for its citizens, but remain competitive at all in a rapidly advancing world. Cultural soft power, diplomatic networks and political influence will in time diminish in the absence of economic success.

While Europe retains, for now, significant soft power – partially as a result of that rich cultural and economic inheritance and legacy diplomatic networks – the harsh reality is that European power is in acute decline on almost every measure.

With the U.S. potentially pivoting towards Asia and increasing competition with China and other Asian economies, Europe lies at a crossroads. Can it rediscover its mojo, or will this be the last generation of Europeans who enjoy significant global influence, let alone relative affluence?

Take two simple statistics. As outlined by the chart below, in 1950 Europe accounted for 22% of the world's population and was the second most populous region after Asia. Today it accounts for 9% of the world's people and that is set to fall to just 6% by 2100 according to UN estimates.

European percentage of global population (UN estimates post-2025)



Source: UN

The second statistic to consider is that in 1990 the countries now comprising the European Union were the world's largest economic bloc, with just under one quarter of world GDP at Purchasing Power Parity (PPP). Today the EU has been relegated to third and its combined share is now just over one seventh of global GDP.

On current trends, on a PPP basis, India's GDP will exceed the entire EU's GDP within ten to twelve years. Such an occurrence would, to most, have been unthinkable even a few years ago. Indonesia now has a bigger economy than either the UK or France.

On any analysis, that is an extraordinary economic decline – and if anything the rate of decline is gathering pace.

GDP global share (PPP US$)

	1990	2023	change
OECD members	61.9%	44.0%	-17.8%
East Asia	17.5%	32.6%	15.1%
China	3.1%	18.8%	15.7%
United States	18.6%	14.9%	-3.7%
European Union	23.8%	14.6%	-9.2%
India	3.2%	7.9%	4.7%
Latin America & Caribbean	9.2%	7.8%	-1.5%
Middle East & North Africa	5.1%	5.7%	0.6%
Russian Federation	4.4%	3.7%	-0.7%
Japan	7.3%	3.5%	-3.9%
Sub-Saharan Africa	2.9%	3.3%	0.4%
Germany	5.7%	3.2%	-2.5%
Indonesia	1.5%	2.4%	0.9%
France	3.9%	2.3%	-1.7%
United Kingdom	3.4%	2.2%	-1.2%

Source: World Bank

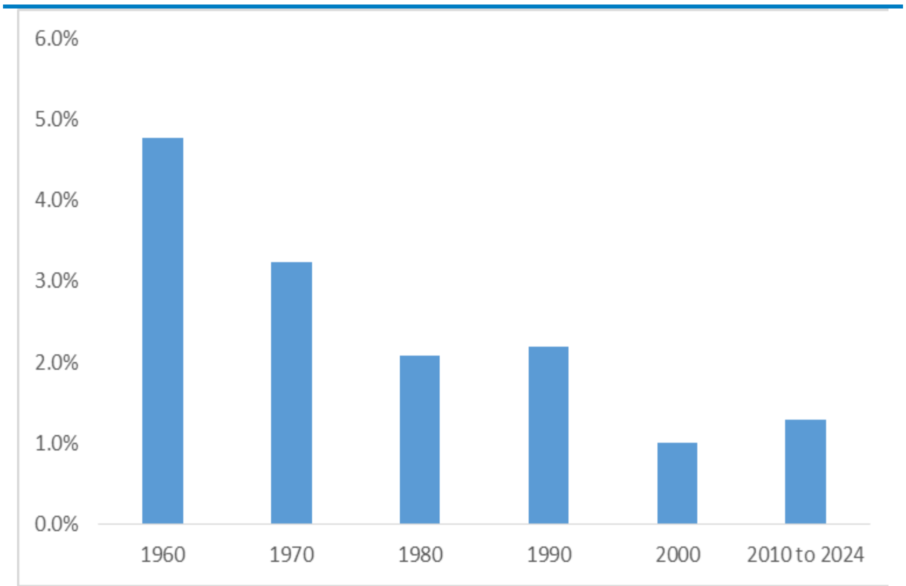
Can a region that has a large relative declining population and structural decline in economic clout really continue materially to influence the world?

There is of course more to power and prosperity than aggregate PPP. Wealth is multifaceted. China has become a much larger economy in aggregate and India will also likely achieve that accolade within a decade or so; but on a per capita basis Europe remains much richer, although even here European growth has stalled badly. Others are catching up and quickly.

Europe has a growth problem and without sustained GDP growth, particularly at a per capita level, Europe's decline will accelerate with potentially devastating consequences.

If we simply look at GDP growth in the Eurozone (with pre-1999 data being an amalgam of the performance of current Eurozone constituents), we see a steady decline by decade, indicated by the chart below.

Eurozone GDP growth per annum by decade (%)

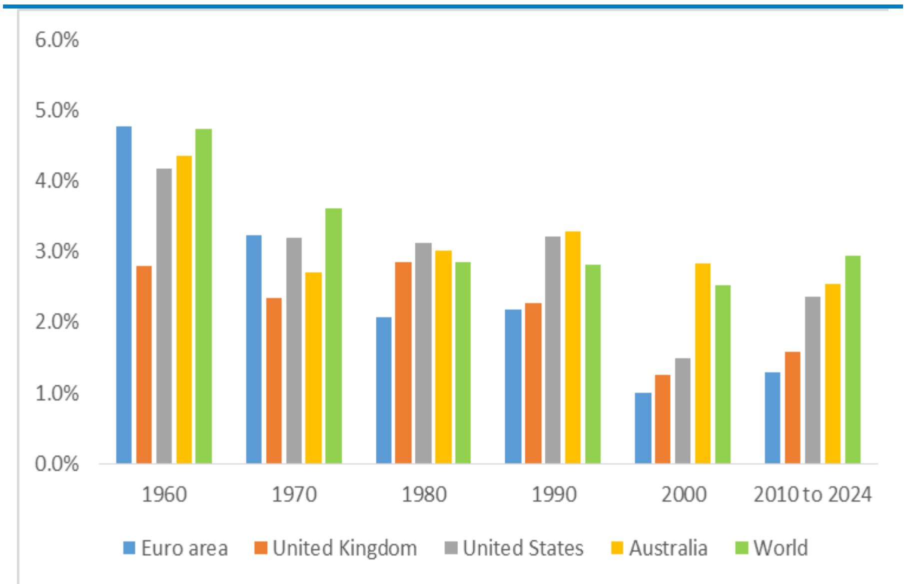


Source: Eurostat

Perhaps the 1960s data should be excluded as the continent was gradually recovering from the ravages of war, but what we see is GDP growth declining from 4.8% compound in the 1960s to 3.2% in the 1970s, then subsequently 2.1%, 2.2% and then 1% in the first decade of the new millennium – with a marginal rebound to 1.3% in the long decade from 2010 to 2024.

If we contrast this performance with other key regions, as outlined below, we see significant European underperformance, not just against global comparatives, but more importantly relative to other advanced economies, notably OECD averages, the U.S., Australia and Canada.

GDP growth per annum by decade (%) by key selected nation/geography

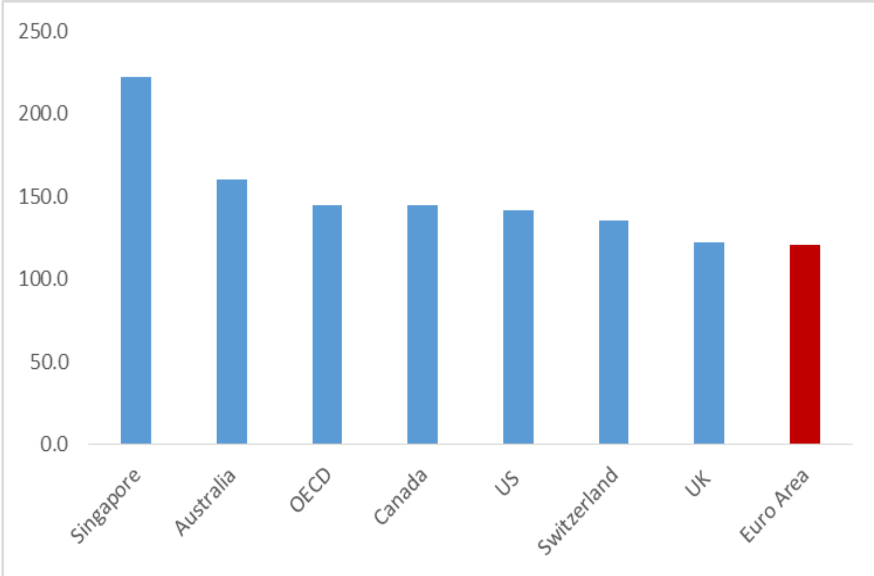


Source: World Bank

Sclerotic growth is not a function of being ‘advanced’, with inevitable underperformance resulting as developing nations catch up. If the U.S., Australia and the OECD can regularly comfortably exceed 2% compound GDP growth, there is no good reason why Europe should not be able to do so too, especially given its inbuilt structural advantages as far as culture, education and rule of law are concerned, along with numerous other legacy advantages.

The chart below, looking at indexed GDP growth since 2005 (that year selected as it was on the eve of the global financial crisis), demonstrates just how far Europe has lagged. Over that period the Singapore economy more than doubled in size, Australia’s increased by 57%, the OECD was up by 42%, Canada by 41% and the U.S. by 37%. The UK has managed 21% growth since 2005 and the Eurozone just 19%.

Major developed nation GDP growth indexed to 2024 (2005=100)



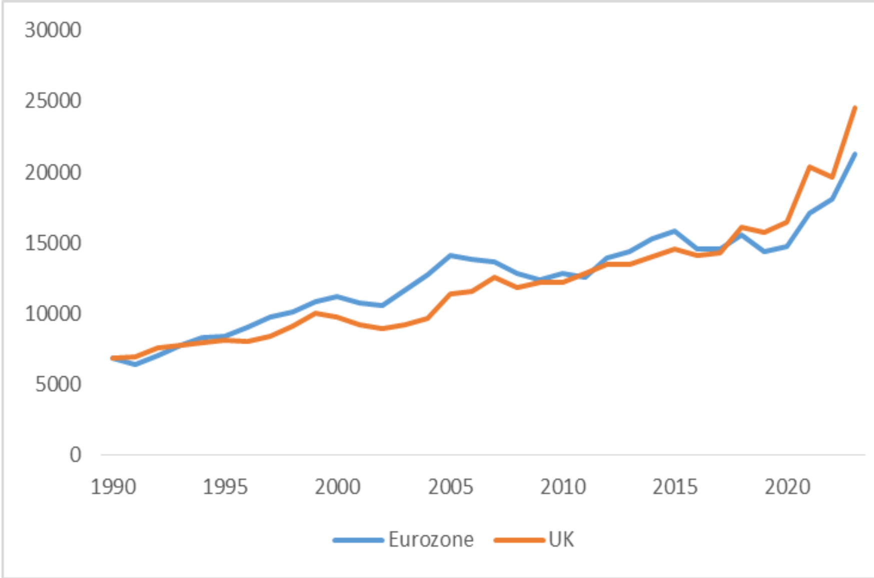
Source: World Bank

Numbers jumping off the page are often hard to visualise; but to put this underperformance in context, if the Eurozone had performed in line with OECD averages since 2005, Eurozone GDP would be around US$3 trillion greater today than the current combined Eurozone GDP of around US$15.7 trillion. That is the equivalent of US$8,500 per annum per head of population in lost opportunity.

If this is not to be the last generation where Europe enjoys a globally privileged position, there urgently needs to be an understanding as to why this catastrophic growth failure has occurred and what can be done to arrest this decline. For continuing as European leaders have, ignoring this decline, would be a dereliction of duty.

GDP growth stagnation has effectively led to a substantial relative drop in living standards for the average European compared to the average American. On a PPP basis, a US$6,000 gap in 1990 has increased to a difference of over US$20,000 per head today. Indeed, if the EU were a U.S. state, only Mississippi would have a lower per capita GDP.

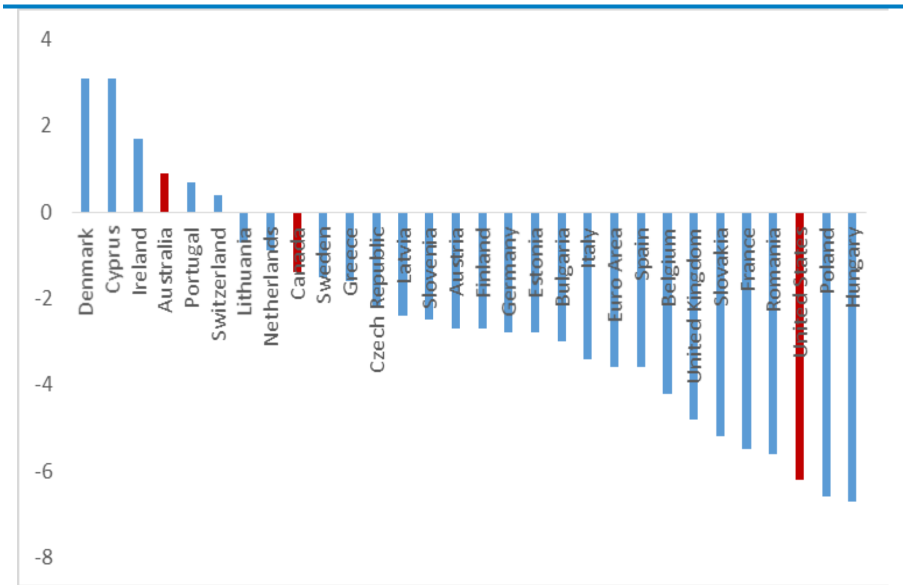
US Purchasing Power Parity per capita GDP premium over Eurozone and UK (US$)



Source: World Bank

Unfortunately this growth underperformance has coincided with a significant weakening of most European nations' public finance balance sheets. We can see from the chart below that most European nations are deficit funding and amongst the major nations, in the cases of Italy, France and the UK, materially so.

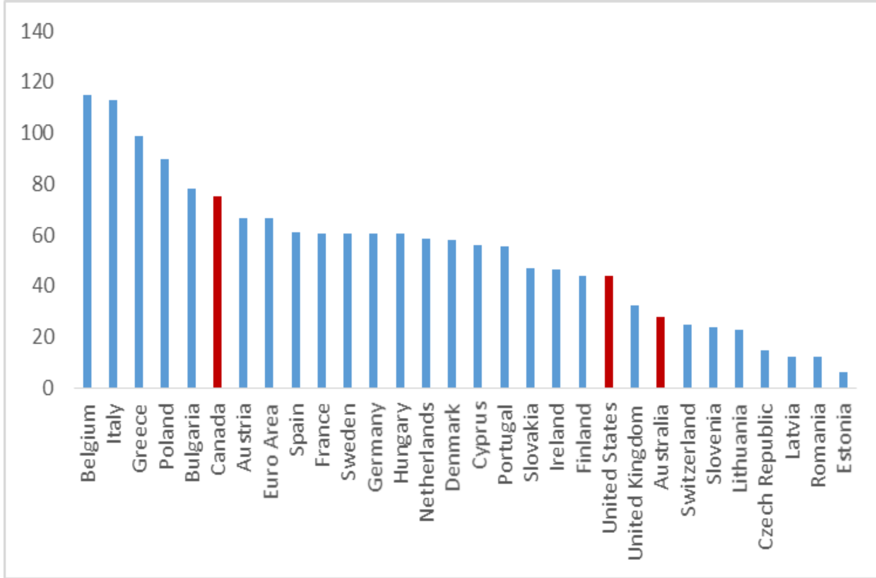
EU nations, UK, Australia, Canada and U.S. fiscal deficit, 2024 (% GDP)



Sources: Eurostat, National Statistical Offices

Worse, Europe's public sector net indebtedness has in most, but not all, cases deteriorated materially over the last generation. We can see from the chart below that in 1997, with the exceptions of Belgium, Italy, Greece and Poland, public debt to GDP ratios were fairly modest.

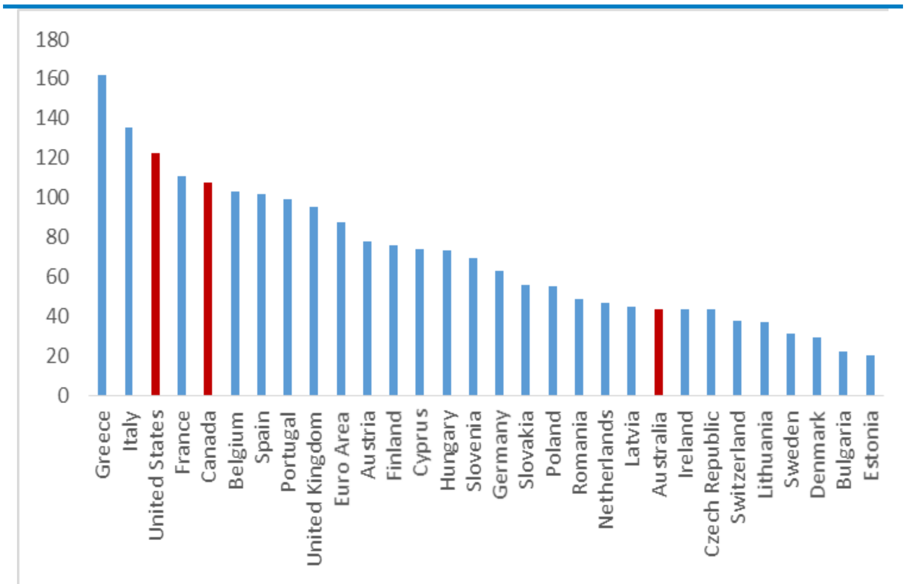
EU and UK, Australia, Canada and U.S. Public Sector Net Debt, 1997 (% GDP)



Sources: Eurostat, National Statistical Offices

Fast forward to 2024 and seven European nations have debt to GDP ratios close to or above 100%, with many national ratios typically having deteriorated by between 20% and 40% of GDP.

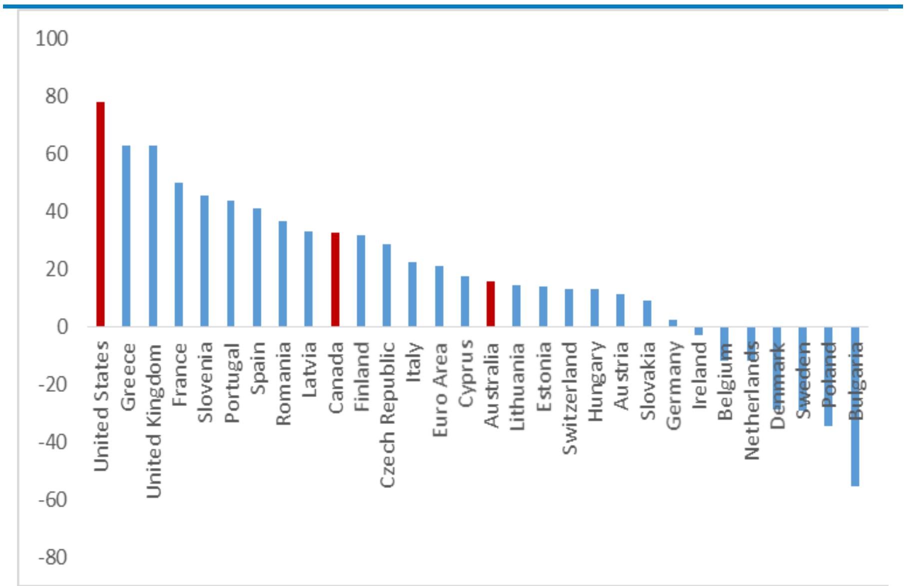
EU and UK, Australia, Canada and U.S. Public Sector Net Debt, 2024 (% GDP)



Sources: Eurostat, National Statistical Offices

Europe is not alone in this situation, as we can see from the chart below. The U.S. position deteriorated even more precipitously than any of the countries examined in the group below between 1997 and 2024, but in a European context, Greece, the UK, France, Portugal and Spain have all presided over sharply deteriorating positions.

Percentage change in public debt to GDP, 1997 to 2024



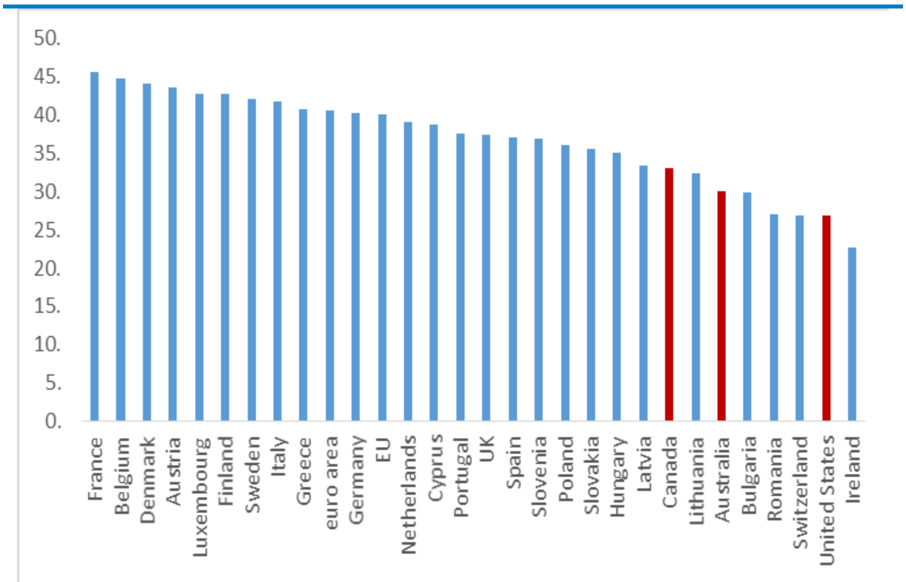
Sources: Eurostat, National Statistical Offices

Low economic growth has effectively moved in tandem with substantial deficit funding. However, there are some bright spots with Belgium, Poland, Sweden and Denmark all materially improving their fiscal positions; and as we shall see later in this paper, these debt re-payers have generally been amongst the strongest GDP growth performers.

Despite deficit financing, as a generalisation, Europe is also a very high-tax continent by global standards. The average tax to GDP ratio in the Eurozone is 41.1% which compares with 33% in Canada, 30% in Australia and a U.S. average of 26.8%. If we were to compare European tax rates to the majority of the BRICS nations, the gap would be even starker.

As an example, according to the OECD, Chinese tax averages 20.1% of GDP and the average for the Asia Pacific region stands at just 19.3%. European tax rates are thus more than double that of the continent's major emerging competitor.

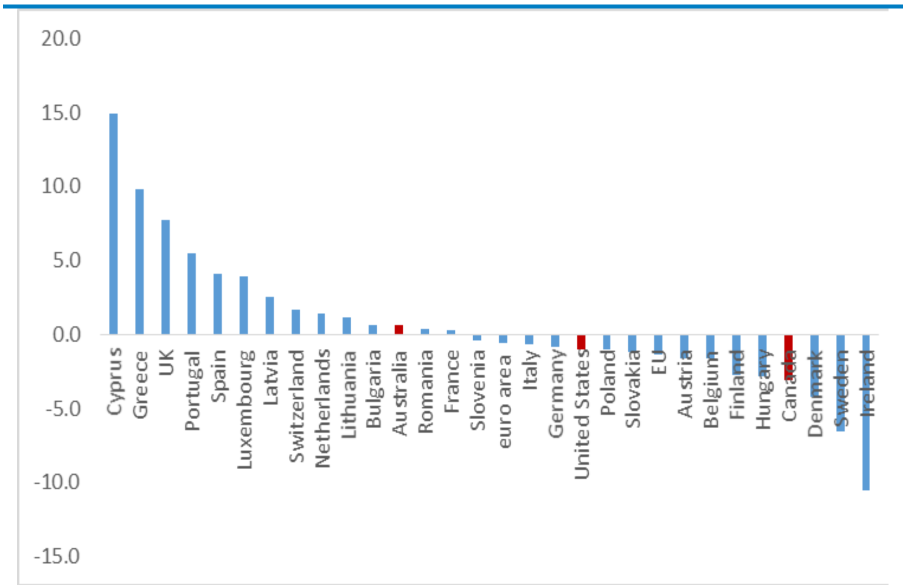
Tax as a percentage of GDP, 2023



Sources: Eurostat, National Statistical Offices

Aggregate European tax at 41% of GDP is 8% to 14% higher than in Canada, Australia and the U.S. This average belies very differing national trends, however, as indicated by the chart below with Cyprus, Greece and the UK significantly increasing tax rates relative to GDP over that period while Ireland, Sweden, Denmark, Hungary and Finland all achieved meaningful reductions.

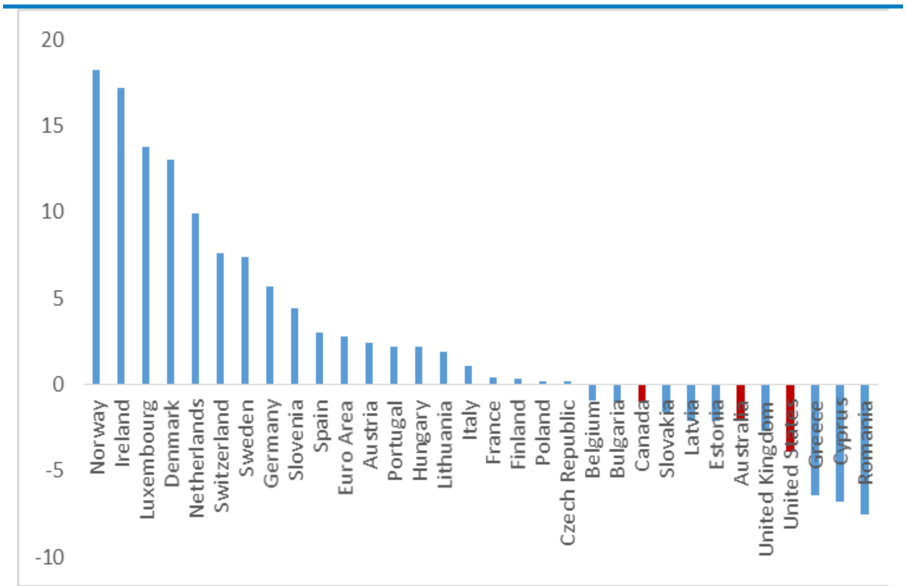
Percentage change in national tax revenue as a share of GDP in 2023 compared to 1997



Sources: Eurostat, National Statistical Offices

One area of relative strength for Europe in aggregate, however, is trade. While performance is highly country specific with (of the major nations) the UK running a significant deficit, in aggregate the EU runs a surplus of 3% GDP – with the Netherlands, Switzerland, Germany and Sweden in particular enjoying very strong surpluses. Clearly this is in the crosshairs of the Trump administration and makes the EU vulnerable to tariffs and global trade policy generally. Thus it is clearly critical, as we shall discuss later, that the EU adopt trade policies to protect its relative competitive strength.

Current Account balance (% GDP)



Sources: Eurostat, National Statistical Offices

2. Why has the EU lagged?

It is almost beyond dispute that Europe is the global growth laggard. The European Commission itself broadly accepts this analysis and indeed commissioned the Draghi Report[1] into European competitiveness in September 2024 to look for potential solutions.

It is to the EU's credit that it acknowledges the problem. However, the proposed remedies in the Draghi Report seem to us to compound the reasons of failure, with its key proposals inevitably advocating that the continent of Europe needs 'more EU, not less'.

More clean energy, more corporate governance, an EU-wide digital identity and so on… The proposals are almost entirely about centralised technocratic remedies based around protection and controlled solutions to perceived problems rather than an understanding of what builds economic success in the first case, namely: competition, market innovation, comparative advantage, market-based solutions and a large and dynamic private sector based around entrepreneurship and new company formation, in which sphere, as we shall discuss later, the EU significantly lags behind other developed countries, and the U.S. in particular.

Draghi's report analysed the state of the European economy and drew various conclusions as to the reasons undermining European competitiveness. These included: high energy costs; supply-demand balancers of critical raw materials like lithium, cobalt and nickel; the slow transition to a digital economy to drive wealth and employment creation which currently lags behind other regions; a dependence on non-EU players in high value segments of the semi-conductor market; strategic cost disadvantage in high energy dependent industrial sectors; and a need to transition to clean technologies together with more integrated defence, space and pharmaceutical strategies.

The paper also examined the potential to accelerate innovation, building investment, strengthening governance and closing the skills gap. In each case, Draghi's solution is more EU, not less. It is planning and centralisation, not diffuse trust, harnessing national competitive advantage, entrepreneurial spirt and private sector innovation.

Our analysis for the reasons for the continent of Europe's failure is somewhat different. We see the underperformance as a result of state size, centralisation, growing regulation and significant growth in the scale and scope of the state, with resultant high taxation and a crowding out of the private sector. Ironically, the EU seems to have forgotten its own principle of subsidiarity. Rather than centralising, devolving power to the most diffuse level would encourage both political and business completion.

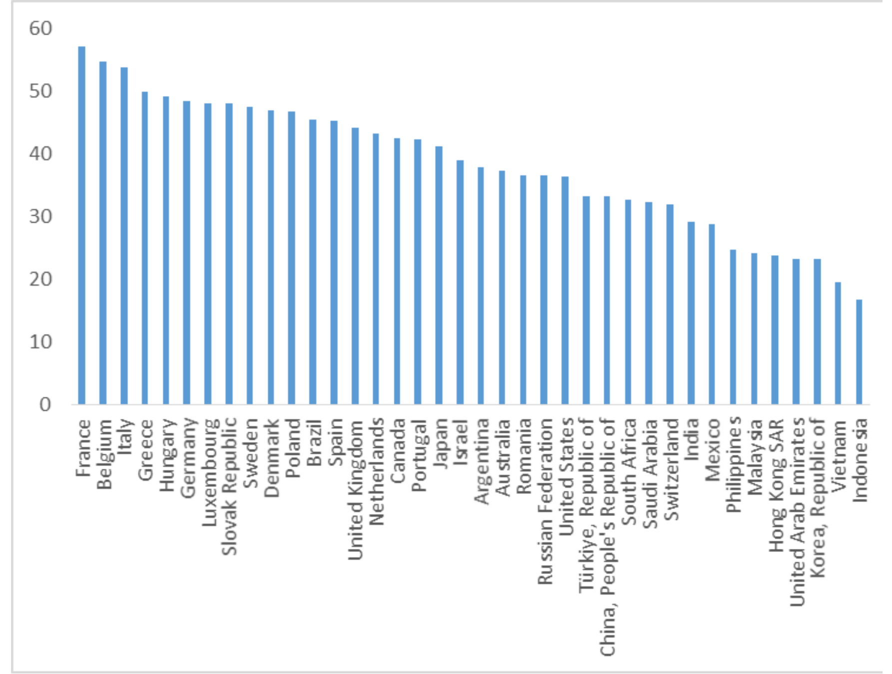
In our view, innovation and growth have been strangled by increased regulatory centralisation; high energy prices; monetary activism and Euro internal instability; weak demographics; a general lack of innovation and falling behind in new technologies; an inability to compete with low-cost Asia; and large and rigid welfare states relative to other jurisdictions. Policy makers have put the cart before the horse, offering a comfort blanket today over firmer foundations that would in the longer term grow prosperity and provide core government services more securely.

[1] See *The future of European competitiveness: Report by Mario Draghi* at https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

The public sector is far larger in Europe than other global jurisdictions

Europe is the global statist region. No other region or substantive nation on earth comes close in terms of the scale and scope of the state, and the level of taxation and regulation. The chart below outlines the size of the state relative to GDP in nearly forty major jurisdictions globally. In Europe, the state generally accounts for between 44% and 55% of GDP, some ten points higher than North America and some twenty points higher than Asia.

Public spending to GDP, 2024 (%)



Sources: Eurostat and National Agencies

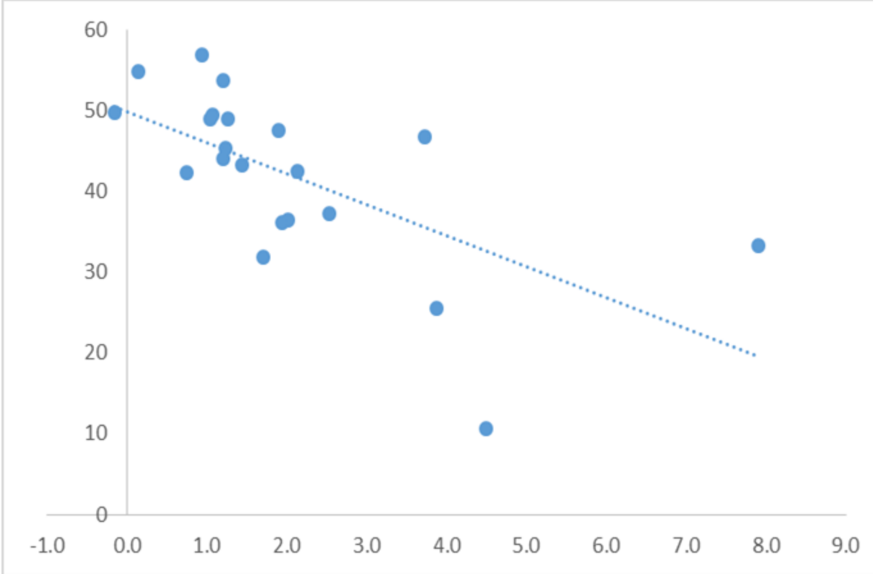
In much of Europe, the public sector is by far and away the principal actor. Moreover, this underestimates the position because over the last generation there has been a material increase in regulation directed by state or near-state entities. Regulation in energy, finance, transport, land use, employment law, minimum wages and progressive selection are increasingly controlled centrally, reducing the scope for either individual action or corporate innovation. No other major region on earth comes close to the degree of state control that is found in Europe. This anti-competitive regulation not only damages the EU's own economy, but it has an adverse effect on trade with its partners. These regulatory barriers have significantly suppressed trading partners' exports into the EU and also artificially increased EU exports to those countries. This combination was initially called out by the Trump administration which announced the levying of a 30% general tariff on the EU which has now been lowered to a 15% general tariff on all EU exports into the U.S.[2]

This might not be an issue if the public and private sectors were equally efficient, but this is clearly not the case, with the private sector a far better allocator of capital. To test this thesis, the chart below looks at the relationship between the size of the state, as measured by public

[2] Further detail is to be found at https://www.whitehouse.gov/fact-sheets/2025/07/fact-sheet-the-united-states-and-european-union-reach-massive-trade-deal/

spending as a percentage of GDP, and average GDP growth between 2005 and 2024 for 21 major nations.

Average GDP growth 2005-24 and size of state relative to GDP: France, Denmark, Austria, Sweden, Italy, Greece, Euro Area, Germany, Netherlands, Portugal, UK, Spain, Poland, OECD, Canada, Australia, Switzerland, U.S., Ireland, China and Singapore



Sources: World Bank and Growth Commission

The inverse correlation between state size and GDP growth is clear. There may well be political or social reasons for a country to choose to have a large public sector; but if that choice is made, the impact on GDP growth will, with a high degree of statistical probability, be negative. From the control group of 21 major nations, each 5% decline in the size of the state increases growth by around 1% per annum.

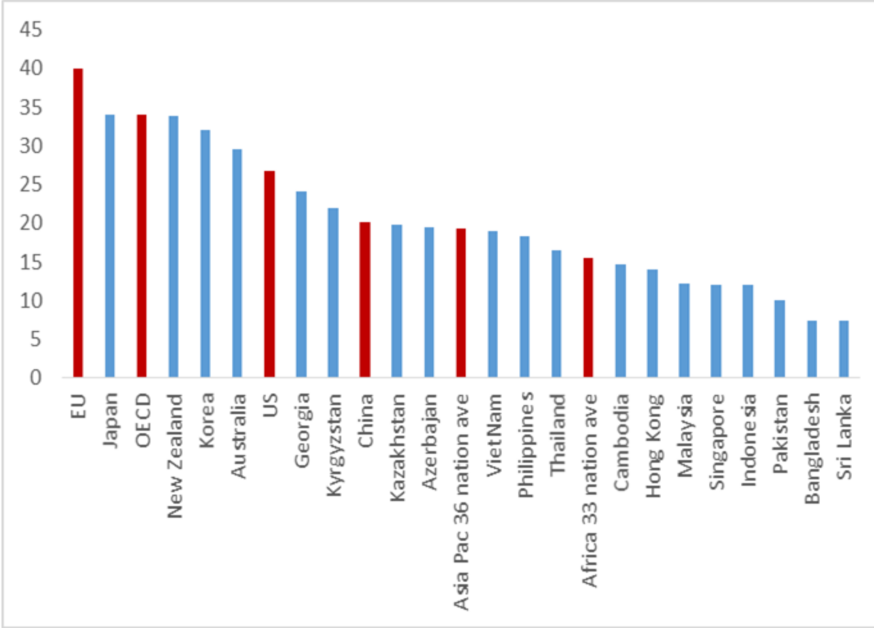
Perhaps the three outliers to what is a fairly clear correlation are Singapore, China and Poland. Singapore has a minimal state, equivalent to 10.7% of GDP. As an effective city state, its characteristics are perhaps atypical, albeit its growth record is outstanding. China has, at 33% of GDP, a medium-sized public sector state and is growing rapidly from a very low base, while Poland, where the state accounts for 46% of GDP, has achieved strong growth, averaging an impressive 3.7% per annum. There may be other factors at play in the Polish case, notably the relatively low starting base of the Polish economy as it transitioned from a more command-based economy.

Europe the high tax region of the world with anti-competitive tax systems

Related to the size of the state is the level of taxation. Here taxation in Europe is amongst the highest in the world by a considerable margin, as outlined by the chart below. This tax disadvantage is significant relative to other major developed competitors – notably Japan, the

OECD, the U.S., and the Anglosphere (excluding the UK) – but against China and other Asian challengers it is acute.

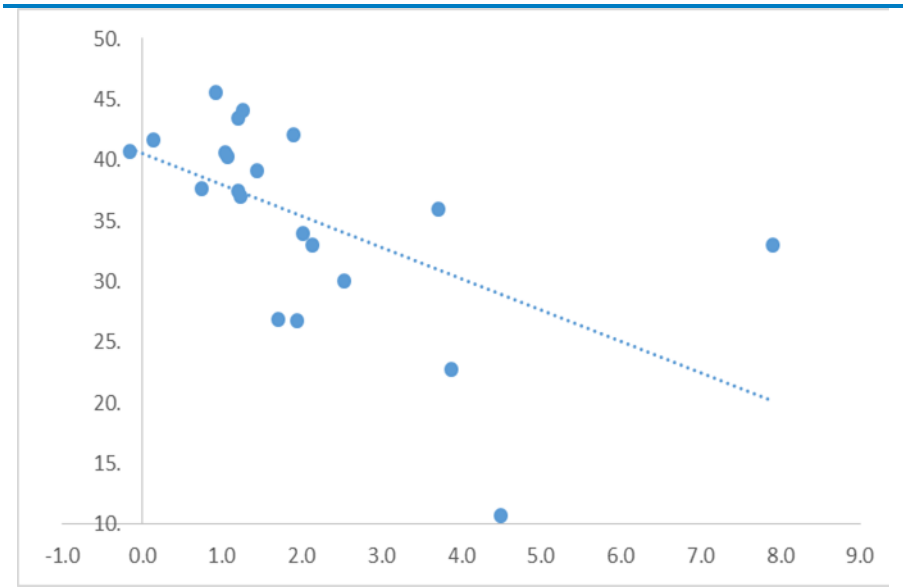
Average tax as a percentage of GDP, 2023: Asia, EU, U.S., OECD and Africa



Source: World Bank

The chart below looks at the relationship between average tax rates to GDP and average GDP growth between 2005 and 2024 for 21 major nations.

Average tax growth 2005-24 and size of state relative to GDP: France, Denmark, Austria, Sweden, Italy, Greece, Euro Area, Germany, Netherlands, Portugal, UK, Spain, Poland, OECD, Canada, Australia, Switzerland, U.S., Ireland, China, Singapore



Sources: World Bank and Walbrook Economics

Again the relationship is clear: lower taxes accelerate growth. Broadly speaking, the evidence from achieved average growth rates and average tax rates between 2005 and 2024 indicates a 5% reduction in tax relative to GDP accelerates growth by about 1% per annum.

In other words, if policy makers decide to cut tax from 40% to 35%, growth might be anticipated to double from 1% of GDP per annum to 2%, giving a tax receipt payback of twelve years, by which time excess economic growth would have negated the initial revenue hit to government, all other things being equal.

Moreover, while the absolute level of taxation in an economy is a key driver of growth, the types of taxes and their effect on investment and employment decisions are also critical. Tax rates matter, but so does the definition of what income or activity is subject to the tax. Tax systems with fewer anti-investment biases do less damage to GDP.

Inadequate cost recovery is a good example of anti-investment, anti-growth bias in most – but not all – European tax systems. The cost of most inputs – such as labour, raw materials, parts purchased from other firms, energy, etc. – are deducted immediately from revenues to determine profit.

However, purchases of equipment and structures are deducted at specified rates over specified time periods in most tax systems. These delayed capital consumption allowances lose value to inflation and the real-time value of money. The present value of the delayed write-offs falls short of the up-front cost of the capital asset. Profit is overstated, the effective tax rate is increased, and the after-tax cost of the assets is driven up. Less capital is formed, reducing labour productivity, wages and employment. This adverse effect of depreciation, instead of expensing, becomes rapidly worse as inflation increases.

Some OECD members are moving their capital consumption allowances in the direction of expensing. Some years ago, the United Kingdom had one of the least generous capital recovery regimes, with no write-offs for buildings. It recently began to allow capital cost recovery of 3% a year for non-residential structures. The UK adopted full expensing for machinery and equipment in 2023. In the Spring Budget of 2024, the Conservative Government proposed extending immediate expensing to one-half of outlays on non-residential structures, with the remainder subject to depreciation. It remains to be seen whether the new Labour Government will retain and expand expensing. Finland and Germany extended or re-introduced accelerated depreciation for machinery in 2024.

The recently enacted U.S. tax reduction package (the One Big Beautiful Bill) restores and makes permanent immediate 100% expensing of machinery and for the first time temporarily allows 100% expensing of outlays for structures used in production (factories and structures used in agriculture, mining and transportation) for buildings which begin construction after 19th January 2025 and before 1st January 2029, and are placed in service before 1st January 2031. Moving in the opposite direction, Canada had adopted full expensing for machinery, but it is currently phasing out the provision.

In Europe, Estonia and Latvia have effectively allowed full expensing for capital investment for equipment and structures, putting their business taxes effectively on a cash flow basis, which is neutral between investment and consumption. Estonia's 20% corporate tax rate is only levied on corporate income distributed as dividends. Its personal income tax rate is a flat 20%, and it does not apply to dividends received. In effect, the corporate and individual taxes are fully integrated, with no double taxation of corporate income.

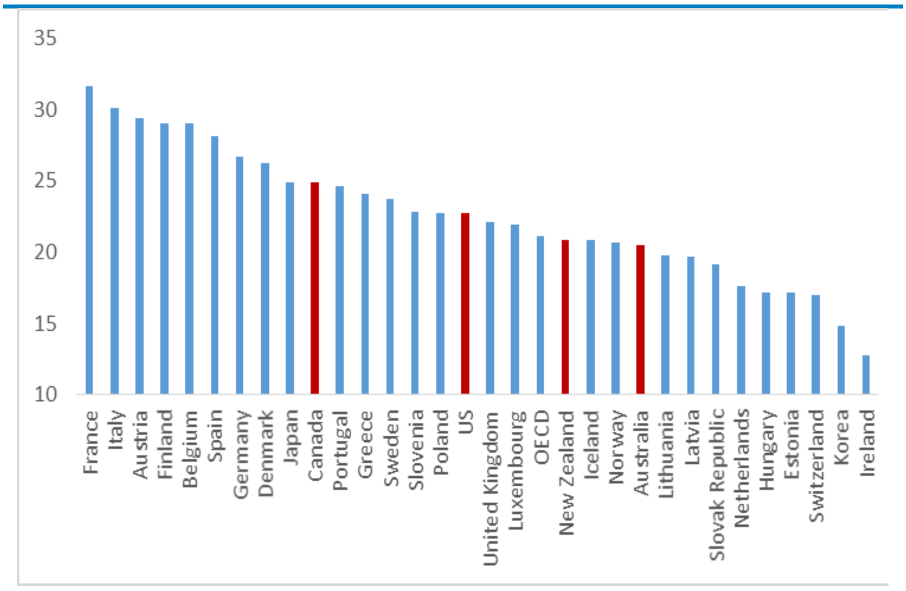
Europe needs to consider very carefully both the absolute levels of taxation, which are amongst the highest in the world, and move towards a system which eliminates the most harmful elements of the tax code streamlined towards growth. In this context Estonia and Latvia are excellent role models.

Social protection budgets far higher than other regions

Related to high taxation is the scale of the welfare state. In each of the four largest members of the Eurozone it exceeds 25% of GDP, a figure that exceeds the entire tax take for all services in China.

It clearly is a political judgement as to the level of social protection on offer, but again the inverse correlation between high social spenders and GDP growth is strong, with the majority of the high spenders trading this political judgement for adverse GDP growth outcomes.

Social spending as a percentage of GDP, 2023



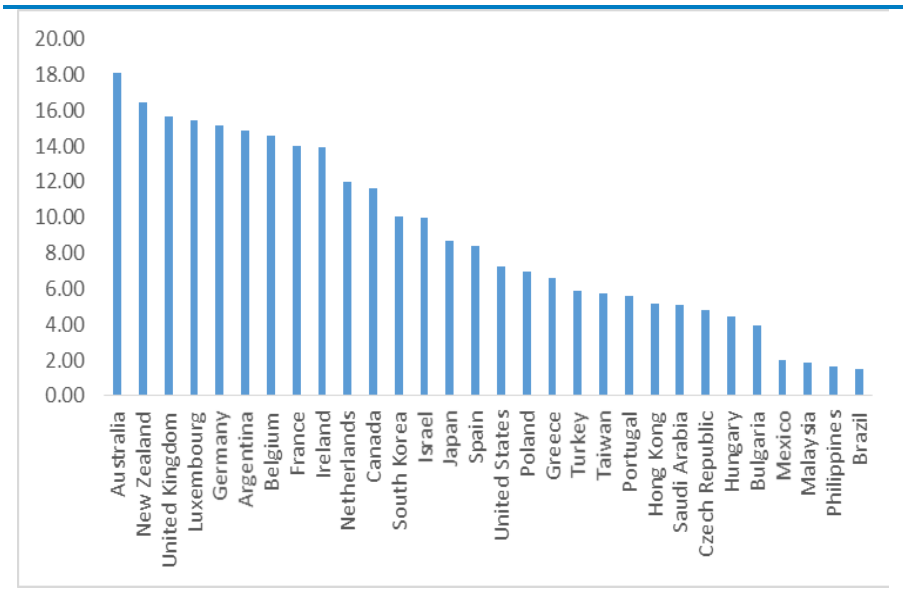
Source: OECD

Employment law far more rigid in Europe than other jurisdictions

Europe has materially increased employment protections over the last twenty years or so. As a proxy for employment regulation, as a generalisation minimum wage levels are very high in Europe by global standards.

As an example, German rates are almost exactly twice the average minimum U.S. rate and several times the level of developing economies. While this may be politically expedient, the flip side is the impact on job creation and underlying competitiveness.

Minimum Wage, 2014 (US$)



Source: World Bank

Labour market flexibility is a significant contributor to GDP per capita according to our ACMD economic model[3]. Indeed according to our model, a ten per cent reduction in the labour market flexibility score leads to a reduction of 2.8% in GDP per capita.[4]

If the EU improved its labour market flexibility by, for example, lowering or eliminating altogether the minimum wage, reducing or eliminating required redundancy payments and increasing the pension age, it could see an increase of between 1.4% and 2.8% in GDP per capita.

While these are difficult issues for European publics, the current lack of growth is not sustainable and intensely damaging for European young people who are not seeing levels of business and job creation which are crucial for their future.

What makes it difficult to fire people in turn makes it difficult to hire people – and is especially disincentivising for small businesses which are the engines of economic growth in all economies.

Selected European countries' sub-pillar scores in labour market flexibility, as compared with non-EU G7 nations, are set out in the following table:

[3] For an explanation of the ACMD model, please see Appendix 1 of *The Autumn 2024 Growth Budget* at https://www.growth-commission.com/wp-content/uploads/2024/10/FINAL-TEXT-GC_Autumn-Growth-Budget-2024.pdf

[4] It should be noted the ACMD model is a state to state model, so this gain or loss is realised over the period it takes to implement the reforms suggested

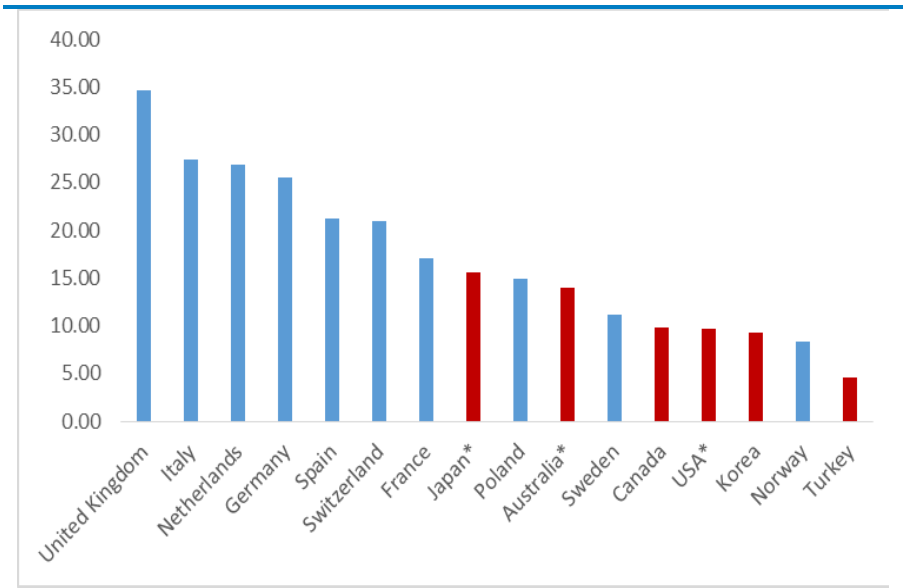
Country	Labour freedom score/ACMD
United States	6.4
New Zealand	6.2
Denmark	6.2
Australia	6.0
Japan	5.7
Ireland	5.5
Canada	5.4
United Kingdom	5.4
Latvia	5.4
Switzerland	5.4
Austria	5.1
Bulgaria	5.1
Bosnia and Herzegovina	5.0
Hungary	4.9
Romania	4.9
Poland	4.8
Lithuania	4.8
Slovenia	4.7
Belgium	4.7
Netherlands	4.6
South Korea	4.4
Estonia	4.4
Sweden	4.2
Norway	4.2
Slovak Republic	4.2
Germany	4.0
Albania	4.0
Greece	4.0
Italy	4.1
Finland	4.0
France	3.7
Portugal	3.7
Croatia	3.6

What is striking is the very low scores of Germany and France, and that the non-EU G7 tend to outperform the EU. Under our ACMD model, if France were to improve its score to the U.S. level, it would realise a 7.6% increase in GDP per capita – reflecting how important labour flexibility is for GDP per capita.

Energy prices the highest in the world

One area where we agree with the findings of the Draghi Report, although not the conclusions, is that high energy prices are a primary reason for underperformance. The chart below looks at one measure of this, domestic electricity prices, which are typically three to four times those seen in North America.

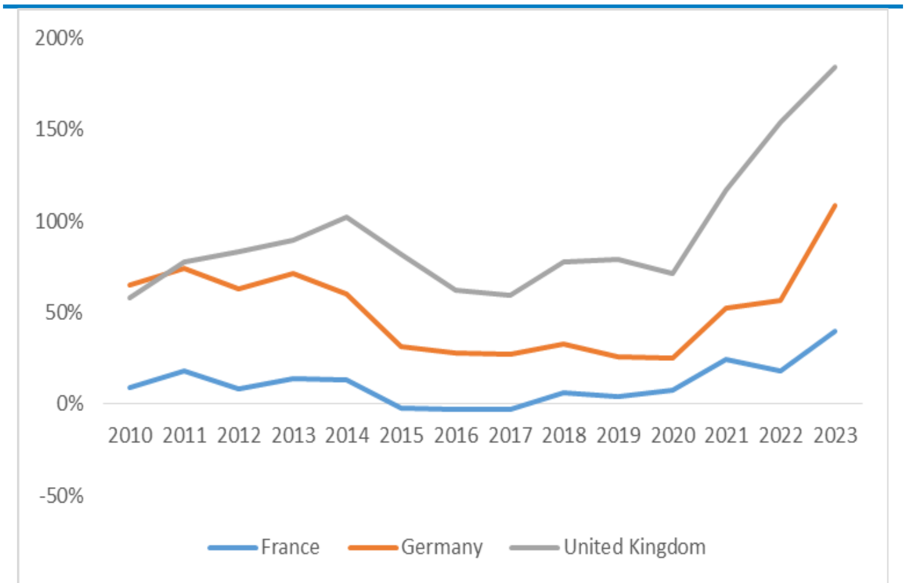
Domestic Electricity prices, 2024 (p/KWh)



Source: IEA (asterisk denotes latest data available, typically 2023)

The problem is that the scale of the energy price differential is generally growing as indicated by the chart below, thus further disadvantaging European industry.

Premium domestic electricity price over U.S. median (% p/KWh)



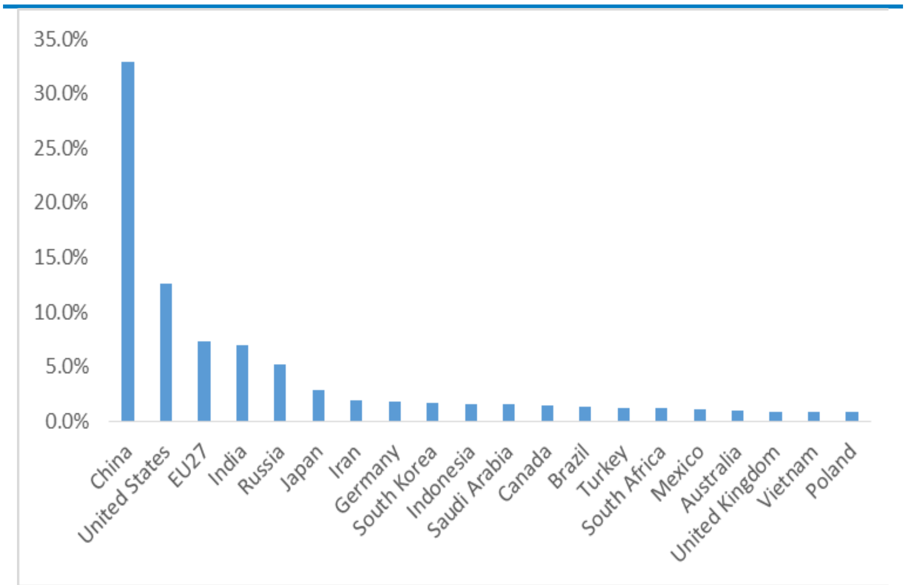
Source: IEA

Even in predominantly service-based economies, power input costs are a major determinant of competitive advantage. While much of Europe is not blessed with abundant hydrocarbon underlying resource[5], disruption of energy supply routes, particularly with Russia, has increased the European energy disadvantage.

On top of this, the reality is that the EU (along with the UK) is the global outlier in the scale and speed of Net Zero adoption. Major European competitors have not adopted Net Zero policies to anything like the same extent, with the U.S., China and India preferring more market-based solutions often based around hydrocarbons.

The EU is a significant CO_2 emitter, accounting for around 7% of global emissions – but that is dwarfed by the Chinese share at 33% and the U.S. which accounts for double the EU share. Developing country emission growth, albeit from a low per capita starting base, will inevitably rapidly grow as countries develop. This inexorable trend vastly outweighs the EU's attempts at controlling carbon emissions.

CO_2 emissions by country, 2023 (% of global total)



Source: EU EDGAR database

Given the direction of current U.S. policy with withdrawal from UN Climate Agreements, the likely continuing growing Chinese demand for hydrocarbons and the lack of incentives on Russia to decarbonise – coupled with the inevitable growth in Indian and other developing economy emissions – the EU response in a global context will make little practical difference to reducing global emissions. The idea that India (or indeed any developing country) will change its energy mix from heavy dependence on fossil fuels to accommodate the EU's Carbon Border Adjustment Mechanism (CBAM), and thereby risk its own economic development and consign 1.4 billion Indians to poverty, is patently absurd.[6]

Given Europe's share of global emissions, its emission reduction targets will make next to no difference in a global context. Current policy is delivering expensive power, distorting investment decisions and undermining global competitiveness for little social good.

[5] The notable exceptions to this are Norway and the UK (oil, gas and coal) while Germany and Poland are in particular rich in coal reserves, with there being potential for fracking in the UK, Germany, Poland and the Netherlands.

[6] For a detailed examination of the EU's CBAM see Singham, Shanker A, *The Impact of Carbon Leakage Mechanisms on Growth*, Growth Commission, October 2024 at https://www.growth-commission.com/wp-content/uploads/2024/10/CBAM-final-pdf.pdf

In our view Europe needs to adopt a far more market-competitive energy approach based not on increasingly isolated climate change criteria, but on delivering efficient, reliable and effective power to European consumers and industry. European countries where they are able – and the UK in particular, given its untapped carbon assets – should develop new oil, gas and fracking fields with a view to developing energy self-sufficiency, as the U.S. has done, in the medium term.

Access to energy and low electricity cost is also a big contributor to GDP per capita according to the ACMD model. Under the ACMD model, electricity-related scores account for 6% of the overall pillar. A one point increase in these scores translates to a 0.6% increase in GDP per capita. If the EU were to improve in this area by eliminating its CBAM, Emissions Trading Scheme and other environmental provisions that contribute to the increase in energy costs, increases in GDP per capita would be realised.

The EU's application of non-tariff barriers to trade

For almost the entire period covered by the General Agreement on Tariffs and Trade and, since 1995, the World Trade Organisation, the EU's approach to agriculture (both in tariffs and its Sanitary and Phytosanitary regulatory regime) has been the bugbear of world trade. Countries have fought the EU in WTO litigations[7] and in negotiating rounds without success. The EU also applies an approach to standards and technical barriers to trade that are designed to favour its companies and distort the level playing field for trade. This has had a damaging effect on the U.S. and other major trading partners. The U.S. government, left with no other choice, has been forced to retaliate against EU protectionism with the big club of a 20% tariff of its own. The EU's policies in this area lower its Domestic Competition (DC) pillar score, damaging its own GDP per capita by eliminating competition within the EU, and at the same time damaging its trading partners.

We have evaluated the cost of different EU countries' lack of competition in regulation[8] in and have found that if the EU optimised its DC pillar score to U.S. levels, it would increase its GDP per capita by between 6% and 11%. If we assume that there is a correlation between this and the damage to the U.S., the 20% tariff starts to look quite reasonable as a measure of the impact of EU policies on U.S. firms (itself a subset of the damage the EU is doing to itself) since there is additional impact on the U.S. of the EU's trade and property rights policies as noted below.

A recent development in the EU is also moving in the wrong direction. The EU's recent pharmaceutical patent protection has declined significantly[9]. Intellectual Property protection is a significant contributor to GDP per capita in the ACMD model. A reduction of one point in this area leads to a 1.9% reduction in GDP per capita.

[7] For example, *DS26: European Communities — Measures Concerning Meat and Meat Products (Hormones)* cited at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds26_e.htm and *DS291: European Communities — Measures Affecting the Approval and Marketing of Biotech Products*, cited at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds291_e.htm

[8] See Singham, Shanker, *How to foster growth by advancing Anti-Competitive Market Distortion-focused trade policy reform in the United States*, Growth Commission, April 2025 at https://www.growth-commission.com/wp-content/uploads/2025/04/How-to-foster-growth-by-advancing-ACMD-focused-trade-policy-reform-in-the-US.pdf

[9] Recent changes are set out at https://single-market-economy.ec.europa.eu/industry/strategy/intellectual-property/patent-protection-eu/supplementary-protection-certificates-pharmaceutical-and-plant-protection-products_en

A lack of corporate dynamism and entrepreneurship

Mario Draghi's report into European competitiveness starkly analysed the lack of European corporate dynamism. He outlined a few examples, including the unpalatable fact that just four of the world's top fifty tech companies are from the European Union (SAP, ASML, Schneider Electric and Spotify) and a further one (Arm Holdings) is British – while no fewer than 32 are from the U.S.

Moreover, no single European company that has been set up from scratch in the last fifty years has a market cap over €100 billion. Furthermore, the U.S. lead in AI is overwhelming and the Chinese lead in the low-carbon economy is similarly dominant.

As is also becoming abundantly clear, the European defence industry lacks depth and quantum. Company formation is weak and EU companies spent €270 billion less than U.S. counterparts on R&D largely because corporate Europe is biased to old economy industry. It's a dispiriting picture.

A quick look at the aggregate market capitalisations of the world's largest stock markets is telling; Europe is nowhere to be seen. Indeed, even if aggregated, the combined market cap of all European nation exchanges is only around 25% of the U.S. total.

Stock markets' market capitalisation by country (US$ trillion as at August 2025)

U.S.	41.9
China	5.6
Japan	3.9
India	3.2
United Kingdom	2.8
France	2.3
Canada	2.3
Germany	2.1
Saudi Arabia	1.9
Switzerland	1.9
Taiwan	1.2
Australia	1.2

Sources: Various

Furthermore, the make-up of European and U.S. equity markets is highly divergent. European markets tend to be biased to 'old economy' business with a fairly static membership often populated by firms founded generations ago.

Contrast this with the U.S. and barely a top ten representative was founded more than a generation ago, often in industries undreamed of when Hermès opened its first shop.

Largest 10 companies by market cap, U.S. and Europe (expressed in £billions as at August 2025)

U.S.		Europe	
NVIDIA	3,302	SAP	248
Microsoft	2,995	ASML	207
Apple	2,270	LVMH	196
Alphabet	1,777	Hermès	191
Amazon	1,697	Prosus	189
Meta Platforms	1,467	L'Oréal	172
Broadcom	1,053	Novo Nordisk	162
Tesla	750	Siemens	150
BerkshireHathaway	747	Deutsche Telekom	134
JPMorgan Chase	609	Accenture	121

Sources: Various

This is not to decry the great European luxury goods brands or other mega caps, but it is a metaphor for the aspic Europe is increasingly becoming.

Forty years ago, the European Single Market was conceived under the European Commission Presidency of Jacques Delors. This market was supposed to rescue European growth and increase market size and dynamism. It is an irony that the opposite has happened and Europe has manifestly failed to find an Amazon, Meta, Google, Microsoft, Apple or NVIDIA.

Why has this been so? We would point to many reasons, including high taxation, regulatory overreach stifling completion and innovation, inflexible labour markets, monetary experimentation and the crowding out of the private sector by excessive public spending. Broadly, the entrepreneur has been mollycoddled and replaced by conformity, risk aversion and a lack of innovation.

It should also be noted that virtually all the largest U.S. companies founded in the last generation or two – with the possible exception of Tesla, which relies on subsidies and government mandates, and Starlink, which is approximately 90% dependent on government contracts for its current revenues – blossomed not from some great central government plan, but a hunch, private innovation and risk-taking, often creating vast new markets from nowhere.

Did the U.S. spontaneously achieve this by random chance? Or perhaps lessons can be learned from the U.S.? What is mightily true is that if Europe does not rediscover its entrepreneurial mojo and quickly, the rate of decline can only accelerate further.

3. The green shoots – some bright spots among the European economies

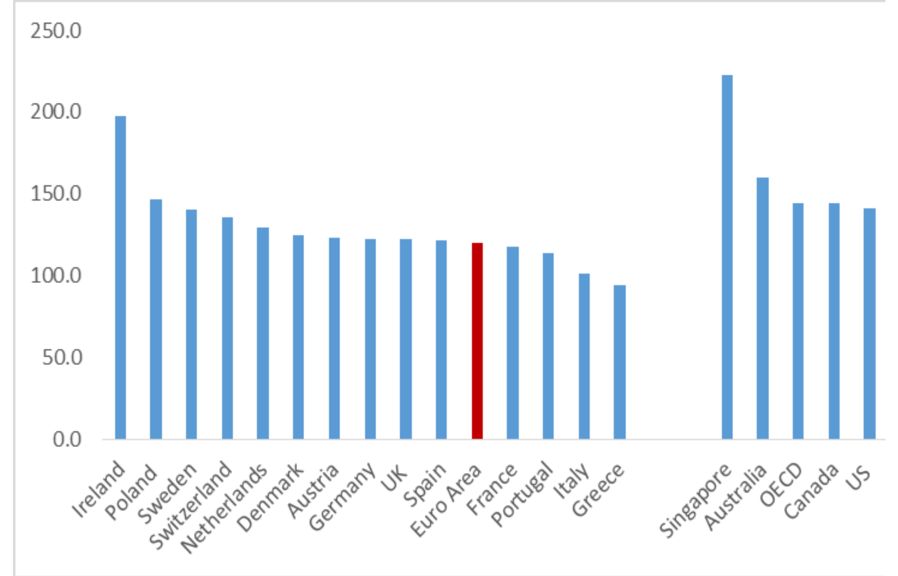
As we have discussed, the Eurozone has very significantly underperformed other regions in terms of GDP growth for at least a generation. We have shown that if European countries in aggregate had grown by the OECD average since 2005, they would be around US$8,500 a person better off today than they currently are.

However, within the EU there is an extraordinary deviation of performance.

The Greek economy remains smaller than it was in 2005 and Italy has flatlined. On the other hand, just one European economy has beaten the OECD average: Ireland, which has seen a near doubling of GDP over that period, despite significant distress during the global financial crisis.

A number of others have come close to matching OECD growth, with Poland and Sweden being the prime examples. Why have some EU countries performed relatively well and other failed?

Indexed GDP growth 2005-2024 (2005 = 100)



Source: IMF

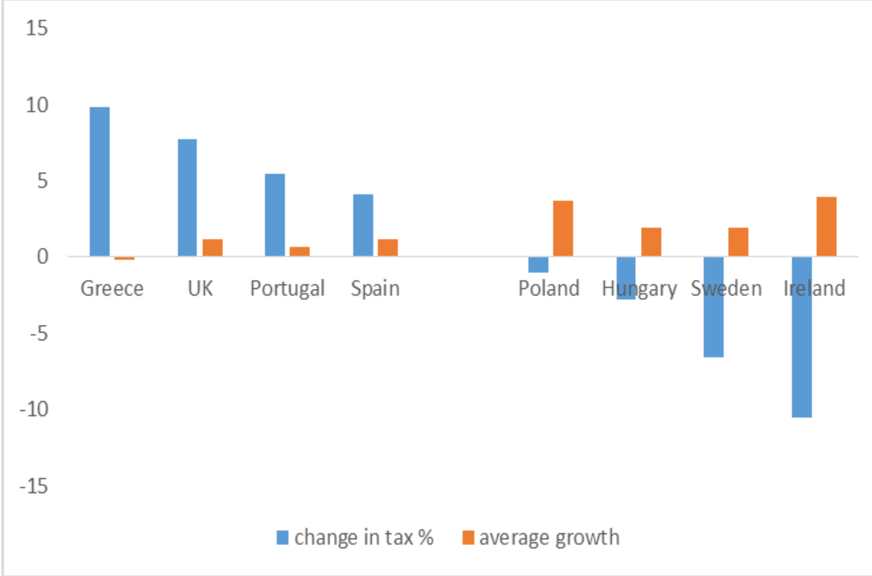
While the characteristics of Ireland, Poland and Sweden are all different, there are some key similarities.

Dealing first with the differences, Ireland is relatively small in terms of population and geographically peripheral.

Sweden is an advanced economy with strong engineering as well as technology, while Poland is a large central European state which has transitioned from a highly controlled planned economy and a low initial base.

So why have they performed relatively well and what lessons can be learned?

Change in average tax rate to GDP and average GDP growth per annum, 2005 to 2024 (%)



Sources: Eurostat, National Statistical Offices

A generation ago, Ireland was one of the poorest countries in the EU, highly dependent on the UK as a trading partner. Ireland also had a traumatic global financial crisis with spiralling debt, banking failure and an extended decline in the housing market.

The Irish Government took drastic action, greatly curtailing the size of the state, stabilising the public finances and ultimately reducing debt levels – including cutting benefits and public sector pay materially. It also adopted aggressive tax-cutting strategies, particularly at the corporate level, attracting significant inward investment and reshoring.

To be sure, some of Ireland's economic performance in GDP per capita terms is the result of accounting processes where profits generated elsewhere are booked in Ireland, and so one must be careful about extrapolating too much from Ireland's performance as this GDP per capita does not reflect the reality of wealth creation in Ireland.

Sweden is interesting as it has a reputation as an example of a successful social democratic country with high taxes. This analysis is out of date and belies more recent developments. While Sweden remains a relatively high-tax jurisdiction, with taxes currently at 42% of GDP, it has been slowly unwinding the social democratic model. Taxes were as high as 48.5% of GDP in 1997, thus while absolute taxes remain high, the direction of travel has been markedly downwards, in contrast to other EU member states.

Furthermore, in 1997 Sweden's public debt to GDP ratio stood at just over 60%. Today it has halved to just under 30%, marking the country out with fiscal rectitude against a tide moving strongly in the opposite direction.

Sweden also had a relatively benign Covid-19 experience, taking a more liberal attitude on restrictions, which was far less disruptive economically and socially. Sweden is an example of a country that is moving away from social democracy gradually towards the free market with some success.

Poland's history is rather different from the major European nations as it has rebuilt from its communist past and as such started from a low base.

While the size of the Polish state relative to GDP is similar to the UK, the starting points were quite different. Poland has been rediscovering market economics and in that sense has similar characteristics to Sweden. The direction of travel has certainly been to move away from its statist past.

But while there are differences between these three growth success stories, in each case they have lowered taxes, reduced the size of the state and generally been fiscally prudent with sustainable debt to GDP levels.

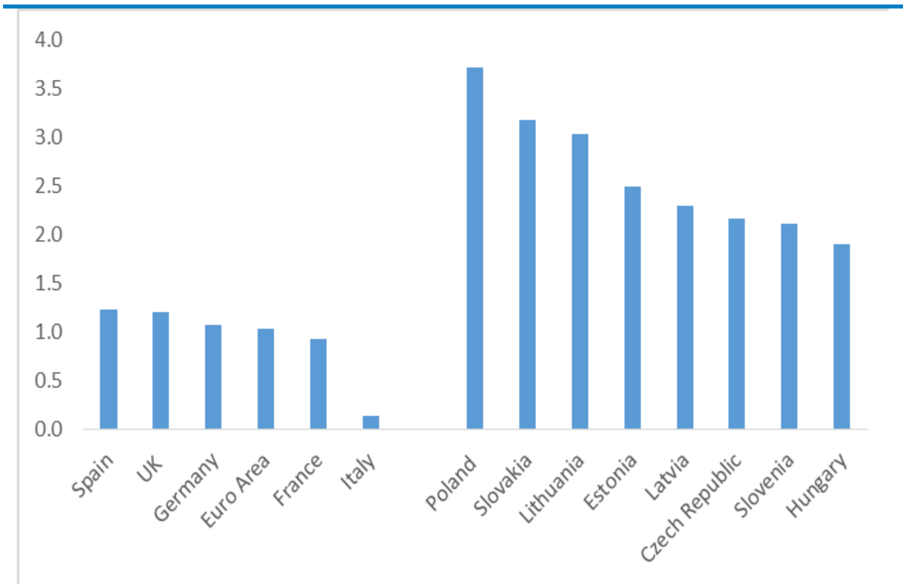
The key message, which contrasts with all the European growth laggards, is to reduce the size of the state, lower taxes, act fiscally prudently and normalise public debt to GDP ratios.

The real divide: Old Europe v Visegrad, Slovenia and the Baltics

We have seen that there are green shoots in Europe amongst the weeds, but the real divide is largely between 'Old Europe' and the Visegrad Group (Poland, the Czech Republic, Slovakia and Hungary), Slovenia and the Baltic states (Estonia, Latvia and Lithuania).

We have shown that there is no good reason for large developed countries to underperform. The U.S., Australia and Canada clearly demonstrate long-term success in stark contrast with the European goliaths of the UK, Germany, France and Spain. However, if we contrast growth in Old Europe with Eastern Europe between 2005 and 2024, we see the latter outperforming the former by a factor of two to three times, with growth amongst the entire Eastern European cohort well above 2%. This is all the more impressive given the dependence many of these states had on relatively inexpensive Russian gas.

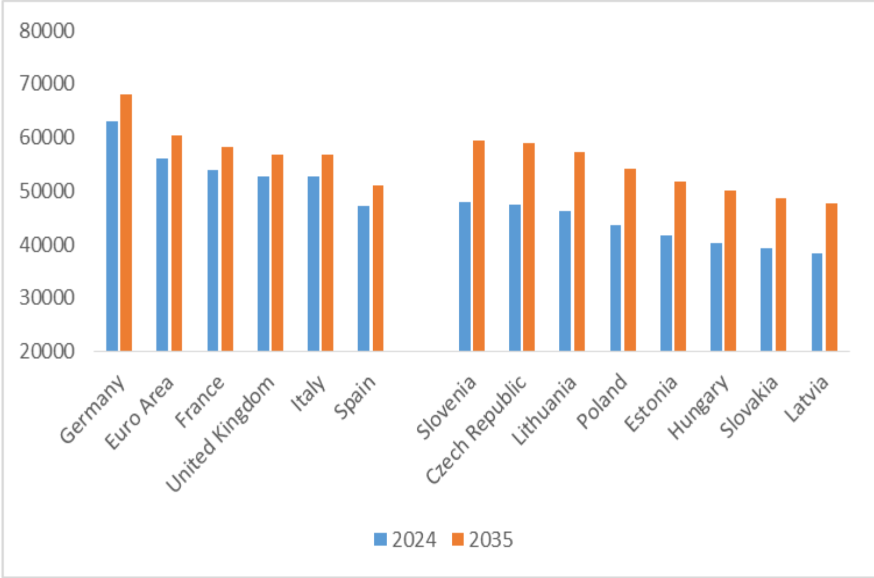
Average GDP growth 2005 to 2024 - Old Europe v Eastern Europe



Sources: Eurostat, National Statistical Offices

While it is accepted that after the collapse of the Soviet Empire in 1989-90 most European countries were coming from a low base, thus meaning there was an element of catch-up, the degree of outperformance is so striking that if current growth rates continue, a number of former Eastern bloc countries will be richer than their western counterparts within a decade on a per capita PPP basis. As an example, Slovenia has already overtaken Spain on this basis.

GDP per capita PPP, 2024 and projected for 2035 (US$)

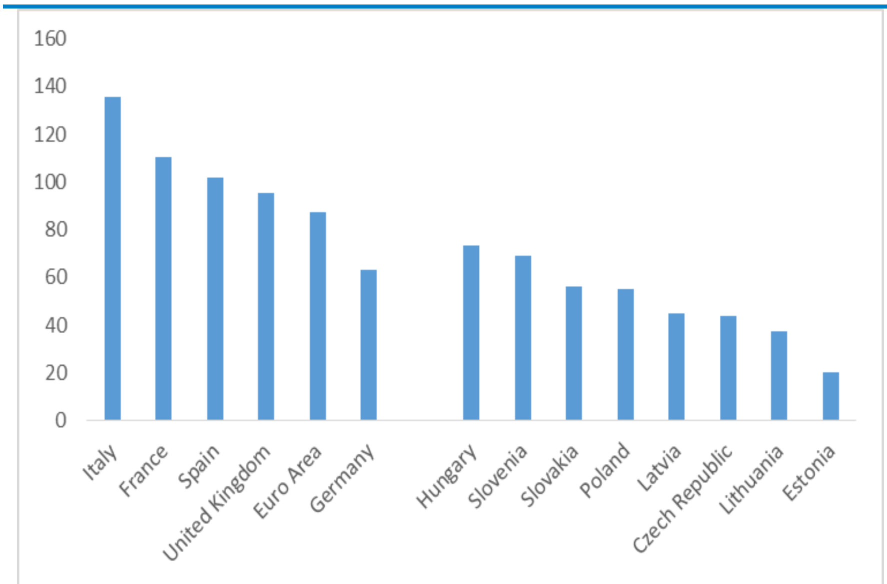


Sources: Eurostat, National Statistical Offices; 2035 Growth Commission estimates

There are of course many factors behind this outperformance, but what we show in the charts below are the common factors which contrast Visegrad, Slovenia and Baltic performance with the common factors of the large Old European nations.

Firstly, looking at public debt to GDP, Old Europe averages around 90%. The Eastern European basket averages 55%.

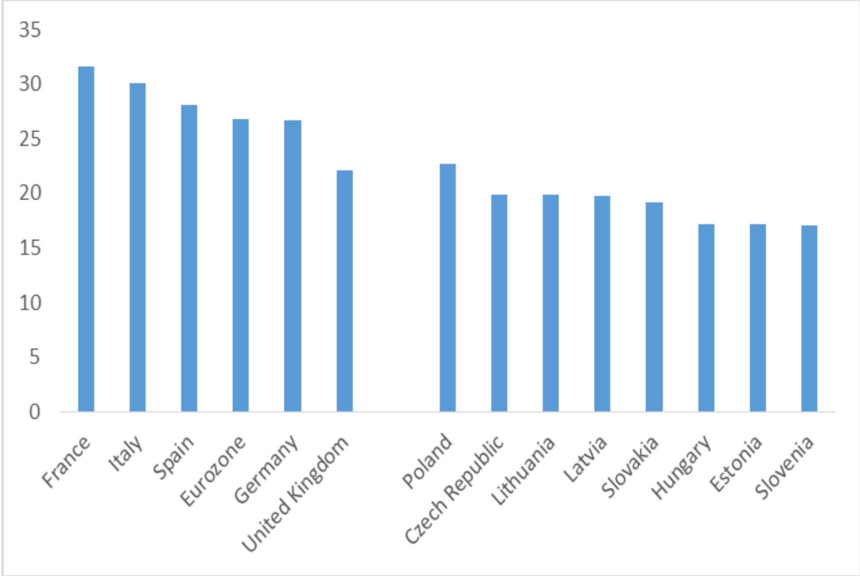
Debt to GDP, 2024 (%) – Old Europe v Eastern Europe



Sources: Eurostat, National Statistical Offices

Next, examining the differences in social spending, we see Eastern European provision is generally some 5% to 8% lower as a proportion of GDP. Incentives to work in Eastern Europe thus remain relatively high.

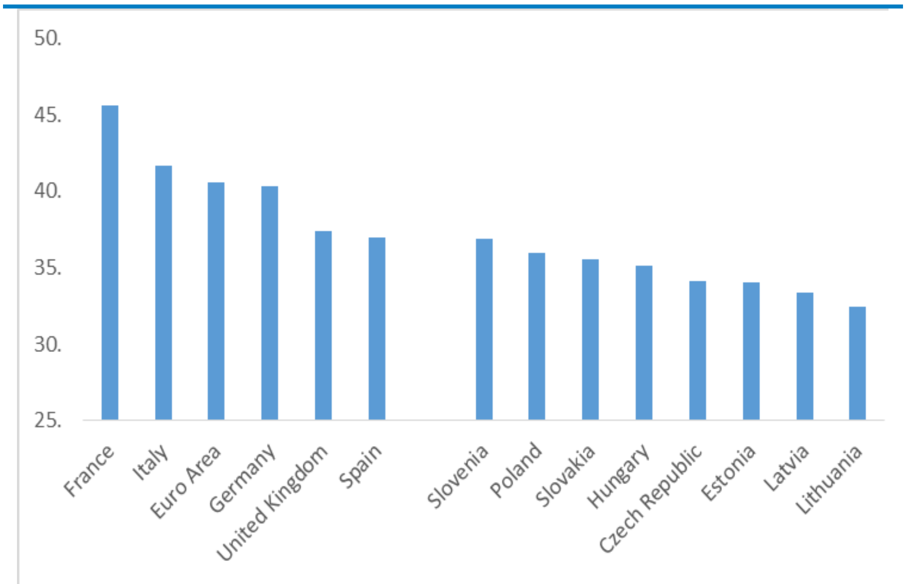
Social spending as a percentage of GDP, 2022/3 – Old Europe v Eastern Europe



Sources: Eurostat, National Statistical Offices

Similarly on tax, Eastern European averages are typically 5% to 10% lower:

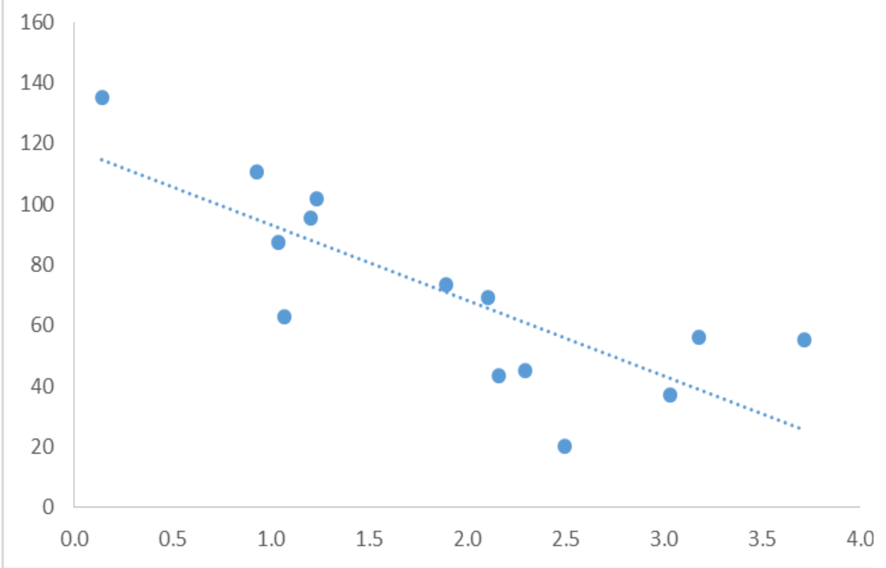
Tax as a percentage of GDP, 2023 – Old Europe v Eastern Europe



Sources: Eurostat, National Statistical Offices

If we then plot national debt and average GDP growth, we see a strong downward sloping line. Lightly indebted countries have performed much better.

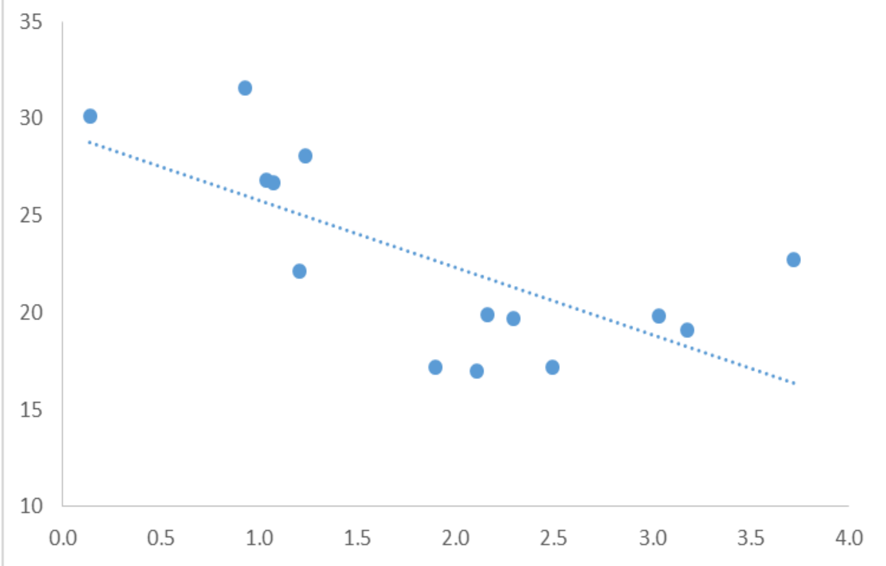
Correlation between national debt and growth
Y axis: national debt as a percentage of GDP
X axis: average growth per annum, 2005-2024 (%)



Sources: Eurostat, National Statistical Offices

Similarly, countries with lower social spending enjoy better GDP growth as incentives remain higher and it likely leads to greater personal responsibility and family integrity over the more socialised Old European model.

Correlation between social spending and growth
Y axis: social spending as a percentage of GDP
X axis: average growth per annum, 2005-2024 (%)



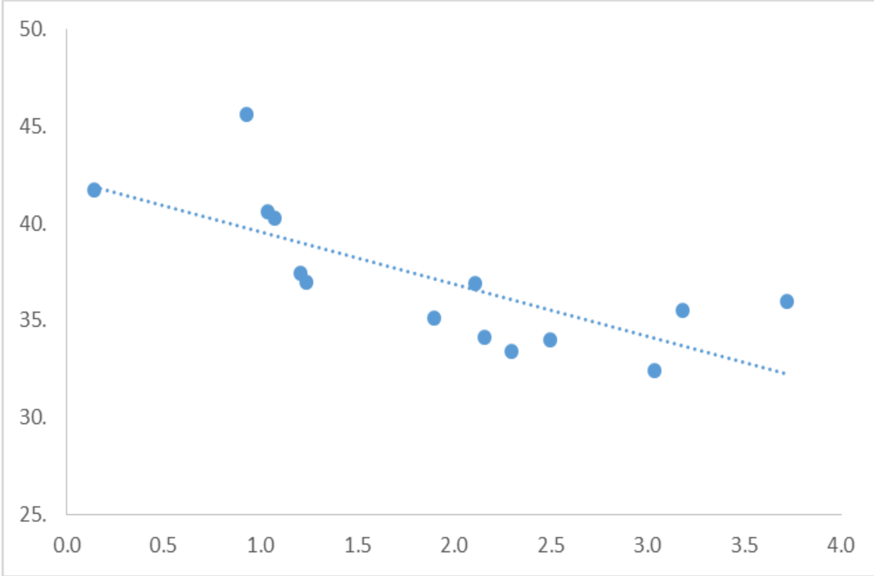
Sources: Eurostat, National Statistical Offices

The relationship between lower-taxed Eastern Europe and Old Europe is also clear:

Correlation between taxation level and growth

Y axis: tax as a percentage of GDP

X axis: average growth per annum, 2005-2024 (%)

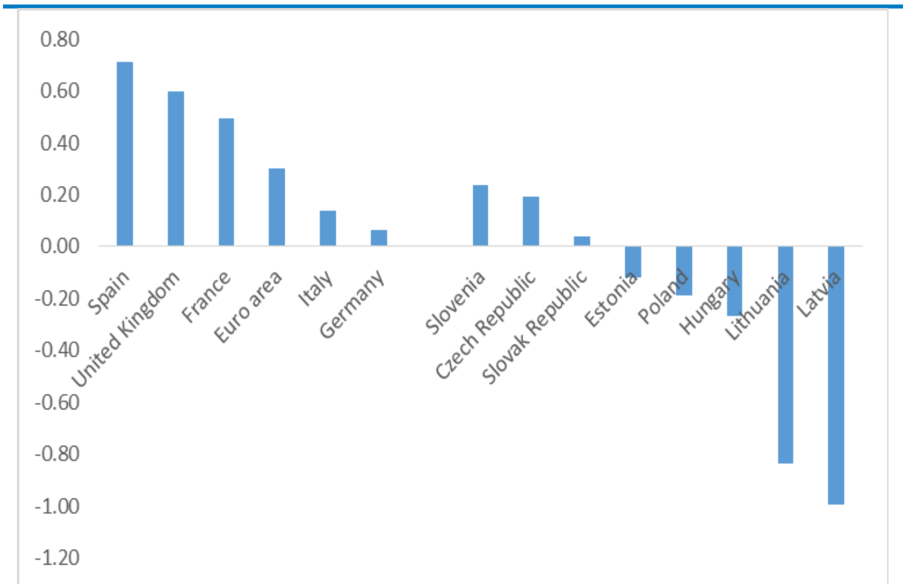


Sources: Eurostat, National Statistical Offices

Finally, Eastern Europe has generally taken a radically different approach to migration. While the UK, France and Germany have actively encouraged inward migration with rapidly changing demographics, often from outside the EU, Eastern European states have adopted the opposite approach, generally discouraging non-European migration. Their populations remain much more homogeneous. If we look at average population growth from 2005, we see a market divergence with aggregate population increases in Old Europe and declines in Eastern Europe.

This makes the GDP growth performance all the more impressive in the East and on the critical per capita basis sees even more profound outperformance.

Average percentage population growth per annum, 2005-2024



Sources: Eurostat, National Statistical Offices

The divide between Eastern Europe and the rest is growing. It is odd that Old European leadership pays so little attention to Europe's success story, instead chastising them to follow their failed model.

New Europe is not only outperforming Old Europe, but also being held back by European-wide goods regulations where there is a single European regulatory system. We can expect the push for more pro-competitive regulation in the future of Europe to come from these nations.

4. The old model will no longer cut it

The leadership of the EU is clearly aware that its continent is a very high-cost, high-tax and high-regulation place to do business. While Europe had been consistently underperforming, the unspoken strategy – with the tacit support of the previous U.S. President Biden and other developed Anglosphere countries – was to export the high-cost model globally via regulatory standards and Net Zero treaties, and to encourage inward migration to dull labour costs to insulate Europe from global pressures. While such policies were clearly incomplete and lacked global regulatory reach so long as the U.S. broadly accepted a similar philosophy, there was some declinist logic to the insulation strategy.

However, with President Trump's break with the global consensus, for example withdrawing the U.S. from UN climate accords, emphasising lower cost carbon solutions and pushing pro-competitive regulatory initiatives and government efficiency – coupled with an emphasis on trying to eradicate trade imbalances through reducing non-tariff barriers with the stick of the threat of tariffs – the EU now faces a blunt choice.

It could turn a blind eye to the new reality in the hope that these new pressures will be merely cyclical and not structural, but with the risk of an even greater loss of global competitiveness; or it could adopt a strategy to re-build global competitiveness in an attempt to arrest the decline.

To assume that the new U.S. administration is a short-term deviation is a bold assumption, particularly as future U.S. administrations logically are likely to be more focused on Chinese and Asian competition than the desires of a declining bloc. Furthermore, U.S. objections to Europe's regulatory model have been long-standing and bipartisan, as the National Trade Estimate over the last three decades shows.

Europe needs to face this new reality. The world has changed and insulation and protection will no longer work (if they ever did). The sooner it accepts this new reality, the more likely decline can be reversed. Europe needs to assess its strategic advantage and competitiveness quickly or accept increasing irrelevance.

The remedies

We do not believe that it is credible to continue as before. The insulation strategy has been overtaken by events. European populations are showing increasing discontent at the tightly regulated, high-cost, high-tax, open migration borders model that has led to decline and now has been rendered obsolete by the changed U.S. philosophy.

If Europe is to retain global relevance, it needs to decentralise and encourage competition. It needs to deregulate, reduce tariff barriers and gradually reduce the size of the state, trusting its future on private enterprise and innovation rather than centralised solutions.

Europe retains some strategic advantage based on its rich culture, rule of law, property rights security and generally well-educated population – but that is not enough to ensure prosperity, given the scale of the shift eastwards and Europe's strategic weakness in most new technology.

The first win should be to free up energy markets. The EU needs to accept that the rest of the world has little de facto interest in Net Zero policies. The U.S. enjoys energy security and has pivoted away from UN climate treaties. China has significant global leadership in most clean technologies, but its own power needs remain largely led by inexpensive hydrocarbons which continue to expand. Indian power remains dominated by coal and electricity prices are around 10% to 15% of European averages. If Europe cannot address its energy price problem, its share of global manufacturing will continue to decline.

There is no quick fix here, save for Europe needing to adopt market-based power solutions driven by cost advantage, not ideological desire. Belief in Net Zero is only relevant if other more polluting regions adopt the same strategy – and until renewable technology costs are cheaper than traditional power sources, they largely won't. Europe needs to rediscover market-based power solutions which in time will deliver diverse lower cost supply.

This means that Europe needs to harness its carbons assets. For the UK and Norway, energy security can be quite quickly achieved given North Sea resources and fracking opportunities. For central Europe, a clear and honest debate is required on the opportunity cost of not renewing trading relationships with Russia on the assumption there is a secure, agreed and lasting peace in Ukraine. Coupled with this, European countries need to follow the U.S. lead and exploit their assets, including their fossil fuel assets. Broadly speaking, Europe's industrial base cannot compete where its base energy costs are between two and four times those of the U.S., let alone the cost base of India and China.

The second easy win is to start to deregulate labour markets. Europe's high-cost social welfare model is a global anomaly. Labour markets need to focus on supply side reforms, limiting growth in minimum wages and reducing impediments on labour flexibility, which will lead to more dynamic labour markets. Such a strategy would increase employment formation and opportunity, thereby aiding dynamism. Tied with this is a need to cap the European social model so the costs of transfers (currently between 20% and 30% of GDP depending on nations) gradually fall to closer to OECD averages over time. Such a dual strategy would improve flexibility and increase working incentives.

Thirdly, Europe should seek to reach a comprehensive trade deal with the U.S. in goods and services. It may go against the grain to accept regulatory reciprocal agreement with the U.S., but such a deal would create a win-win trade scenario. Allied to this, India is perhaps the last great largely untapped market for the EU and offers a substantial trading opportunity, particularly in luxury products and advanced services. However, if the EU insists on attempting to impose its regulatory framework on India, it will likely greatly limit the scope of any deal.

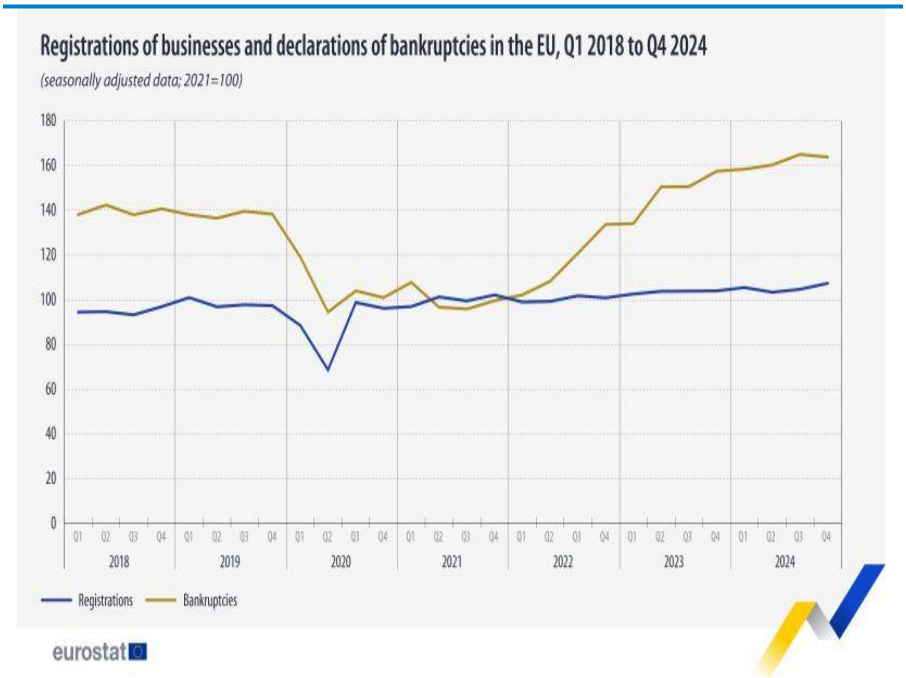
On this point the EU needs to move away from seeking to push harmonisation according to EU standards on the rest of the world and move into a world of regulatory competition and inter-operability on the basis of mutual recognition and equivalence. We point out here that it is regulatory recognition which built the EU's internal market originally.

Fourth, Europe needs to focus on empowering its population through greater labour flexibility rather than importing cheap foreign labour. Employment participation records and formation vary markedly by country, providing a pool of under-employment that can be harnessed, thus reducing the strategy of importing labour which has proved politically destabilising. It is noteworthy that most Eastern European states have been net exporters of people, in contrast to

Old Europe. Population stability or even reduction has if anything been correlated with higher per capita GDP growth.

Fifth, Europe needs to greatly increase its new company formation. There are huge variations in ease of company formation by country but at an aggregate level in Europe, company formation, relative to the U.S., is weak. Furthermore, as indicated by the chart below, corporate failure exceeds new company formation.

New company formation and bankruptcy in the EU (2021=100)



Source: Eurostat

Transforming the company formation environment is cultural and environmental as much as regulatory, and a core element of this needs to be an acceptance that changing the risk/reward balance needs to be addressed through supply side encouragement – notably increasing tax incentives towards company formation and the deepening of capital pools for investment. For example, the UK's model of Enterprise Investment Scheme tax relief incentives or similar should be considered across Europe. This is not a quick fix, but encouraging greater start-up capital pools and tax incentives, coupled with greater labour market flexibility, should start this process.

Sixth, Europe needs to become tax competitive globally, both in terms of absolute rates and tax design. Europe's absolute rates of taxation to GDP are at a substantial premium to other OECD nations and completely uncompetitive relative to Asia. The longer term drag on growth we believe to be material. Allied to reducing absolute rates of taxation, Europe should adopt tax provisions that reduce tax barriers to investment and capital formation in both existing and new businesses, and help to increase new company formation.

Growth-enhancing changes to EU tax systems are possible and affordable. In descending order of bang-for-the-buck:

Moving capital consumption (depreciation) allowances in the direction of full expensing for corporate and non-corporate business investment is the most efficient pro-growth reform of the tax system. It yields the greatest increase in the capital stock and GDP, productivity, wages and employment per euro of initial revenue loss to the Treasury.

Second most effective would be to reduce the corporate tax rate, and to reduce the double taxation of corporate income by integrating the corporate and individual tax systems to eliminate the double taxation of corporate earnings. OECD efforts to eliminate corporate tax rate competition through its Pillar I and Pillar II initiatives should be abandoned.

Other pro-growth reforms would include refocusing property taxes on land rather than improvements such as buildings and infrastructure, and the elimination of death taxes. Both would further reduce the anti-saving tax biases in the tax systems. Reductions in high marginal tax rates on labour (due to high combined income and social insurance tax rates) should also be considered.

Seventh, European nations should re-examine every new regulation introduced over the last ten years with a presumption to repeal unless there is an overwhelming reason not to. Europe was hardly lightly regulated a decade ago, but starting the progress of encouraging market-based competition over state regulation will aid growth.

There is a common misunderstanding that the benefits of regulatory reform are just in improving business compliance costs (indeed, this is often the argument used to reduce red tape). However the vast majority of the regulatory benefit is in the improvement of the regulatory system to increase market competition. We estimate that these pro-competitive benefits are approximately six or seven times the simple business compliance gains. We note that in the U.S. a particular telecom regulation was valued by OMB as costing $50 million, but CEA using competition-based metrics found its cost to be $100 billion[10].

Previous Growth Commission papers have highlighted studies that show that 31% to 37% market power increases are attributable to Federal Register notices[11]. Now the U.S. Federal Trade Commission and Department of Justice have a task force which is aimed at reducing anti-competitive market distortions and regulation in the U.S.[12] But these activities are really old wine in new bottles as the OECD and International Competition Network have long championed competition assessments of existing regulations to remove anti-competitive regulation. The Growth Commission has previously cited studies by the World Bank and OECD showing the GDP per capita impact of such regulatory improvements and these are not trivial.[13]

Eighth, Europe should decentralise. It should remember its concept of subsidiarity. It should delegate power back to national capitals and community levels, creating competition of ideas, regulation and performance as a means of driving growth. Was it not competition between Italian city states that was the bedrock of the Renaissance?

[10] For further discussion of these matters, see Tackling Regulatory Burdens: Policy Recommendations for the Next U.S. Administration, a discussion between Shanker Singham, Alden Abbott and Casey Mulligan hosted by the Mercatus Center and available to watch at https://www.mercatus.org/economic-insights/event-videos/tackling-regulatory-burdens-policy-recommendations-next-us

[11] See Singla, Shikhar, *Regulatory Costs and Market Power*, LawFin Working Paper No. 47, Center for Advanced Studies on the Foundations of Law and Finance, Goethe University, February 23, 2023

[12] See Executive Order on *Reducing Anti-Competitive Regulatory Barriers*, April 9, 2025 at https://www.whitehouse.gov/presidential-actions/2025/04/reducing-anti-competitive-regulatory-barriers/

[13] See for example Parke, D. and Kirkpatrick, K, *The Economic Impact of Regulatory Policy: A Literature Review of Quantitative Evidence*, OECD Expert Paper No. 3, August 2012, 2-48

And ninth – and perhaps most importantly – Europe needs to examine much more closely the opportunity cost of the large-state, social welfare model. Its state size, typically 45% of GDP, is some ten points higher than the U.S. and twenty points higher than much of Asia. This luxury perhaps could be ignored when China was 3% of global GDP and Indian GDP was less than that of France. But the world has changed and with it the social model growth discount needs to be reversed.

The EU should adopt a ten-year plan to reduce the size of the public sector by 5% relative to GDP by 2035 and a further 5% by 2045, at which point typically the state would still account for around 35% of GDP – a high figure by global standards, but much closer to the OECD average. This is not as dramatic as it sounds over the timeframe proposed and – despite an ageing population – could be achieved by capping social protection spending growth to the Consumer Prices Index, offering tax incentives to grow private medicine and educational sectors, paring back regulation and adopting more market-leaning approaches to energy policy.

Critically, allied to this would be a strategy to balance fiscal budgets. Capital being directed to sovereign bond markets to facilitate deficit finance crowds out private sector investment opportunity and raises the cost of scarce capital away from productive sectors. Recycling tax cuts into bottom up private sector innovation will not only increase dynamism and accelerate growth in the medium term, but it will be self-financing with a short payback and break the cycle of decline and despair.

The lessons from Europe's few bright growth spots should be learned. Lowering taxes, reducing the size of the state and observing fiscal stability has resulted in stronger GDP growth. The countries that have adopted the opposite strategy – all the major EU countries and the UK – have paid a very heavy growth price.

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