

The World Needs Europe to Get Its Act Together – Fast

di Dani Rodrik

If Europe is to assert itself on the global stage, as it should, it needs to restore its self-confidence. Many yearn for an alternative to the US and Chinese models, and for that, Europe's leaders must have the courage to chart their own course.

CAMBRIDGE – The world's two superpowers are hardly inspiring models for those who care about democracy, human rights, and social justice. For all its economic success, China is an authoritarian regime that does not tolerate dissent. Under President Donald Trump, the United States has not only abandoned any semblance of addressing its vast inequalities of income and wealth but has also departed sharply from the rule of law at home and has become an erratic, unreliable partner abroad. Many yearn for a better future than what the US and Chinese models offer. If we are to achieve a stable, multipolar world in which democratic aspirations remain alive, Europe will have to take the lead.

But Europe has its own weaknesses. Its economic machine is faltering, and its democracy is under attack from far-right groups. But its politics has not deteriorated as much as in the US under Trump, and the continent still has many sources of strength, including a social-market model that produces greater equality and a stronger middle class than the US, as well as a large economic base – comparable to that of the US when adjusted for purchasing power – that boasts many innovative industries.

The trouble is not only that Europe lacks a vision of what it wants to be, but that it often looks at the wrong models for inspiration. For many of the continent's leaders, the holy grail is the American Silicon Valley model of innovation. They point to the “innovation gap” between the US and the European Union that the influential [Draghi](#)

[report](#) documented and advocate reforms – such as financial market integration and digital deregulation – that would, in effect, make Europe more like the US.

This US envy is misplaced. It disregards Europe's own traditions of inclusion and regulation that have produced more equitable societies with broader access to good middle-class jobs and more reliable safety nets. It also overlooks the disconnect in America between innovation, on one hand, and productivity and general living standards, on the other.

It is true that by almost any metric the US spends more on research and development and produces more innovation. But this yields greater economy-wide productivity and rising living standards for ordinary people only if the benefits diffuse widely. Indeed, US productivity growth since 2000 has been lackluster, except for the very recent uptick. The tech sector is an island in an economy where many workers need a second job to keep their heads above water.

As [Ufuk Akcigit](#) of the University of Chicago and Sina Ates of the Federal Reserve Board [have shown](#), the diffusion of innovation has slowed in the US. A small number of large firms have monopolized knowledge production, while entry barriers and restrictive patents create a mass of smaller, laggard firms. The resulting concentration of innovative activity means that the US economic system produces a highly skewed income and wealth distribution that no country should want to emulate. Trump himself came to power riding the wave of discontent that this has caused.

In manufacturing, it is China that is the target of European envy. China's manufacturing prowess has squeezed traditional areas of European dominance, such as autos and capital goods. For many European industrial leaders, restoring competitiveness requires putting up protectionist barriers against Chinese imports.

But there is no way that Europe can return to its manufacturing glory days. Jobs will not return to factories: even China has lost millions of manufacturing jobs over the past decade. Ensuring good jobs in Europe will require a focus on services, enhancing both productivity and working standards in areas ranging from care to hospitality.

The competitive challenge from China requires a [more strategic response](#) than protectionism. The appropriate remedy consists of narrowly targeted industrial

policies that, unlike import tariffs, directly encourage innovation and focus on segments of advanced manufacturing where Europe is most likely to become a technology leader. In autos, for example, Germany should focus on the next generation of electric vehicles, rather than on the mass-market EVs that China has become so good at producing.

Another problem is that the EU as an institution is not well equipped to develop the bold, new vision that current circumstances require. Its founders thought economic union would ultimately produce political union. But their vision has not been realized. The EU acts more like a restraint on economic policy than an enabler: insufficiently integrated for its central institutions to act boldly, but integrated enough for national leaders to feel they cannot (or should not) experiment.

Today, the EU's founding logic needs to be inverted. Geopolitical challenges demand that Europe act in unison in matters of defense and national security, while economic conditions require the relaxation of the Union's shackles to permit experimentation. Europe should focus on a common foreign and defense policy. But there is no harm, and potentially significant benefit, in letting countries do their own thing in economics – on their own, or in groupings of their own choosing.

Consider the trade agreements that the EU has negotiated with India and South America's Mercosur bloc – seeming successes that nonetheless underscore the EU's inability to move beyond its past preoccupations and arrangements. Deepening the EU's cooperation with other parts of the world is an absolute necessity and a requirement of multipolarity. But it is better pursued through political agreements. Trade agreements consume political capital at home and divert attention from more important economic-policy priorities: strengthening the middle class through good jobs, enhancing productivity in mostly non-tradable services, and fostering an innovation ecosystem that is consistent with Europe's social model.

If Europe is to assert itself on the global stage, as it should, it needs to restore its self-confidence. The world needs an alternative to the US and Chinese models, and for that, Europe's leaders must have the courage to chart their own course.