SAIIA25

December 8, 2025

Robert Jackson

“<u>What’s Going Wrong in Europe (including the UK)</u>”

Introduction

My topic this evening could be addressed from numerous different angles, including such important questions as “What is going wrong with European Culture” or with European Society or European Politics. I will touch on aspects of some of these in my talk, and we may perhaps expand on them in the Q&A session which follows. Meanwhile in my talk the main focus will be on the questions of “What is going wrong with the European Economies?” and “What is going wrong with Europe in terms of Geopolitics?”

Europe in today’s Geopolitics

I begin with Geopolitics. Here the central fact of the past three years has been the dramatic exposure of Europe’s weaknesses brought about by Putin’s invasion of Ukraine, together with the crisis in the Middle East brought about by the Hamas pogrom on the border between Gaza and Israel and the dramatic response of the Israelis.

Both of these developments seem to have taken the European powers by surprise, despite years of elaborate European intelligence gathering and diplomacy in these two areas. The American expression “all mouth and no trousers” describes all-too exactly the situation that has been exposed in Europe..

The common factor in both cases has been the exposure of Europe’s more or less complete dependence on the USA (and to a much lesser extent the UK) for the defence of its security interests.

In the Middle East the disruption of primarily European trade via the Suez Canal by Iran-sponsored Houthi drone and missile attacks was countered by the US navy and air-power, supported by the UK. The European contribution has been minimal. In the wider conflict involving Gaza, Lebanon, Syria, and Iran, the European powers were confronted not only by their inability or unwillingness to get involved but also by a fundamental contradiction between their attitudes to Israel on the one hand, and to the Arab powers on the other. Another proverbial expression fits the case: “falling between two stools”. Once again the Americans were left to assert and defend Western interests, in securing a cease-fire in Gaza, the curtailing Iran’s nuclear ambitions, and negotiating a diplomatic reconciliation between Israel and the leading Arab powers. The recognition of Palestinian statehood by most of the European powers is another empty European gesture in a long history of similar ineffectual interventions.

In the case of Ukraine, the Continental European response to Putin’s invasion was initially crippled by Germany’s massive dependence on oil and gas imports from Russia and by the economic advantages won for Germany over the previous three decades by its Special Relationship with Russia since the fall of the Soviet Union. Note that in his first presidency Donald Trump had warned Germany about these risks, and was publicly laughed at for his pains by German diplomats. France was also playing the same game, as were Italy and Spain, and notably Hungary and Austria. The UK – with nothing to lose in Russia – was the only European power actively supporting Ukraine in the decisive first weeks of the war. Once again it fell to the USA to supply the vast bulk of the money, the intelligence and the military kit which enabled the successful Ukrainian push-back in the first year of the fighting. It was only slowly and with considerable reluctance that Germany and France began to apply sanctions on Russia and to supply weapons to Ukraine. The Germans deserve credit, however, for the eventual scale of their support for Ukraine. For all Macron’s grandstanding, this has dwarfed the French contribution.

Meanwhile, the run-down of Europe’s armed forces and military industries in the decades of the “Peace Dividend” since 1990 has meant that Europe is unable to secure any kind of victory for Ukraine, despite its belated efforts against Russia which have led to the current breakdown in European/Russian relations.

Once again this has left the USA as the only Western power capable of calling the shots. This was already becoming clear under Biden, but with the return of Trump to the White House it has become crystal clear – to the point that in the current round of diplomacy aiming to end this war in Europe, Europe's leaders are lucky to be invited to pose for group photographs outside the conferences to which they are not invited.

Not yet so serious, but likely to become so, has been the weak and hesitant approach of the Europeans, including the UK, to the rising geo-political tensions between the USA and the PRC. It is still possible to avoid this becoming a major crisis, and it remains reasonable for the Europeans, like the Americans themselves, to try to cultivate good relations with China. But in the USA, this is accompanied by a vigorous bi-partisan policy of reducing the risks which are involved in dependencies on Chinese technology, markets, and money – and the European response to this has been weak, divided, and hesitant, just as it was in the run-up to the Ukraine war.

Why is it that Europe has got all this so badly wrong? The most important factor has to do with economics and finance, to which I will turn in a moment. With regard to the political aspects of these failures, one explanation attributes these European failures to a more fundamental failure - that is, the failure to follow up the establishment of the European Monetary Union in 1999 by establishing a European Economic and Political Union capable of inserting a united Europe into a position of strategic autonomy as one of the five "Poles" of an emerging multi-polar world order. I think that this explanation is mistaken. The unification of Europe on this scale and with these dimensions was always an elite pipe-dream, given the lack of support for such a project among the various European electorates. This was dramatically exposed as long ago as 2004, when the voters in France and the Netherlands voted against the federalising draft "Constitution of the European Union". It seems highly unlikely that the treaties which would be necessary to continue the process of "ever-closer European Union" would survive the various national requirements for plebiscites and parliamentary super-majorities.

But the explanation of Europe's political weakness in terms of its failure to realise an all-singing, all-dancing European Union does, I think, point us to something which may furnish a better explanation of that weakness.
The persisting illusion of the possibility of constructing such a European Union has weakened the sense of responsibility at the national level for constructing viable policies for national security and defence. I think this helps to explain how

talking big in Brussels has been combined with acting small in Berlin, in Paris, in Rome, in Madrid – and also even in London….

To conclude this section of our analysis. In today's geopolitics there are now only two super-powers – the USA and the PRC. Europe and the European powers hardly count. Russia has greatly weakened itself and is increasingly exposed to pressures on the one hand from the Chinese and from the other by the Americans. In this situation Trump is clearly aiming to counter the Chinese by replacing Germany as Russia's friend in the West – an endeavour in which he may not be unsuccessful. If the famous Nord Stream pipelines are reconnected, they may well be under American ownership.

Financial and Economic Factors

I turn now to the financial and economic factors that help to explain "What is going Wrong in Europe, including the UK".

One of the most remarkable phenomena of recent decades, and not just since Covid, has been the immense growth of Borrowing and Debt, both Public and Private.

Here are some very recent testimonies. A week or so ago the influential French think-tank, the *Institut Montaigne* pointed out that over the past forty years French public debt has increased by a factor of five. If present trends continue it will amount to 235 per cent of French GDP by 2050. Social protection spending has increased by five per cent a year over the past twenty-five years. You may recall that similar projections have recently been published by similar bodies in the UK.

In Germany the fiscal situation is not yet quite so serious. But a notable development has been the agreement after the Bundestag election earlier this year, to abandon the constitutional requirement for balanced budgets and the restriction of state borrowing to a limit of 65 per cent of GDP.
Public borrowing in Germany is beginning to follow the same upward spiral that has established itself elsewhere in Europe Meanwhile another and more fundamental dimension of "What is Going Wrong in Germany" was revealed last week in a report from the *Bundesverband der Deutschen Industrie*, the leading

voice of industry in Germany. Its president, Peter Leibinger, describes German industry as facing its biggest crisis since the beginning of the Federal Republic. Capacity utilization in the chemical, mechanical engineering, and steel sectors is at an all-time low. Construction is beginning to expand somewhat, and so is car production – but along with a lot of shedding of labour. With the rise of Chinese export competition, and the decline in Chinese imports from Germany, the global trade environment is becoming much more difficult, and supply chains are becoming less reliable. What is becoming apparent in Germany is its over-reliance on a few sectors heavily invested in third generation mechanical technologies and lacking in diversification into new fourth generation digital technologies which are replacing them.

Returning to the *Institut Montaigne* report on France which I mentioned a moment ago. This concludes that simply to stabilize the present fiscal position in the face of demographic developments will require annual budget savings of at least 140 billion euros. The Institute projects four scenarios. One of these envisages an across-the-board 8 per cent cut in all public budgets. The second envisages continued high social protection spending with massive cuts in other budgets, notably that of public education which would probably have to cease to be free. A third scenario, favoured by the Institut, envisages a cut in all pensions of 8.4 percent over the next four years, or of 16 percent if only larger pensions are cut. All pensioners would lose their current 10 percent tax allowance, and all would have to continue to pay social contributions. A fourth scenario envisages a financial crisis leading to drastic and unplanned emergency austerities.

Those hardy few of you who have been following the ins-and-outs of recent French politics will know just how impossible are the first three of these scenarios – making the fourth of them increasingly likely, especially against the background of the weakening of the German economy, with its decades-long rock-like support for the other economies in the Euro-zone.

To generalize – the advanced industrial economies across the world are accumulating debts, both public and private, on a scale that is now approaching those incurred in the Second World War. This is true not only of Europe, but also of the USA, of China, of Japan, and of Russia. Meanwhile, let's also note that one of the most remarkable exceptions to this world-wide rule of fiscal insobriety seems to be South Africa!

It is too easy to blame Covid for this situation. In fact, Covid only made an already bad situation worse. The trend to rising levels of Debt started well before the advent of Covid in 2020, and even before the world financial crisis in 2008 and the earlier dot-com bust in 2000. An important factor was the trend around the millennium to low interest rates across the world, driven by the savings of the boomers, by increasing capital market integration, and by central bank responses to financial crises.

Japan was the first in the field, already in the 1990s as the three decades of its rapid economic expansion in the 60s, 70s, and 80s ran out of steam. China may now be following suit, after its own three decades of economic growth in the 90s and the first two decades of the present century. Today China and Japan have probably the highest debt-to-GDP ratios in the world.

So, a proper answer to the question of "What's going wrong in Europe, including the UK?" must be that Europe and the UK are only a part of a wider story, of "What's going wrong almost everywhere". Having proposed this wider context for our discussion, I want to go on to argue that the case of Europe is particularly bad, and therefore especially worth dwelling on.

Why is this growing Indebtedness a Problem?

But before I go into this, let me first of all try to spell out why this growing indebtedness is a case of something "going wrong". After all, did not Keynes teach us that the world-wide economic catastrophe of the early 30s was in part attributable to excessive public frugality, and that the best if not the only way out of the disaster was to increase public spending, and public borrowing?

And it is of course true that what put an end to the Great Depression of the 1930s was the vast expansion of public borrowing to finance rearmament, first in Germany, then in Britain and France, and finally also in the USA.

But let us remember that there was an important codicil attached to Keynes' advocacy of increased public spending and borrowing – a codicil that is all too easily forgotten, and which will help us to work out What is Going Wrong. This codicil was to the effect that increased public spending and borrowing should only be undertaken when there is a slump in private spending and borrowing – i.e. only in times of bad economic weather. In good times, when the economy has recovered its balance, the growth in public spending and borrowing should be curtailed. In other words, the policy should be one of "contra-cyclical" action, which should not be allowed to become "pro-cyclical". A large part of what is Going Wrong in the world today is attributable to the forgetting of this important Keynesian codicil.

There is of course also another seductive argument for more spending and more borrowing. This is the argument for investment. Have we not learned from the history of the 20th century, that man's increasing mastery of science delivers all manner of wonderful new technologies which enable our economic activities to become increasingly productive, delivering ever-increasing bang for every buck? Whatever we borrow now to invest in these new technologies will surely be amply repaid in the future, from the proceeds of the speeding up of economic and productive growth - propelled by whatever borrowing is required in the present to enable that speeding up to occur.

But what happens if this anticipated growth does not actually occur, for whatever reason? Or if that growth only occurs patchily, in some parts of the world and not in others?

And this suggests another clue to an understanding of "What is Going Wrong" – that there are always obstacles to accelerating economic growth, and that those obstacles may be more effective in some places than in others. To be more specific: in both the USA and the PRC the obstacles to economic growth funded by rising debt seem to be less powerful than they are in the EU and the UK, and also in Japan – and indeed in Russia.
Which is not to say that things are not also going wrong in the USA and the PRC – just that they are going more badly wrong in Europe, including the UK.

Obstacles to Economic Growth

I suggest that the obstacles to economic growth in the current period can be analysed under six headings. These obstacles are present across the world in many different forms in many different countries. But I will argue that they are especially prominent and serious in Europe and the UK.

My six headings are (1) adverse Demographic trends – (2) increasingly burdensome Entitlement expenditures – (3) increasingly burdensome Taxation, notably to pay for Entitlements – (4) increasingly burdensome Regulation of economic activities in the pursuit of other values than economic growth – (5) inflexible and obsolescent or obsolete Economic Models – and, finally, (6) the power of First Mover advantages in circumstances of rapid technological development.

<u>Demography</u> – Favourable demographic developments were a very important factor behind the accelerated economic growth of the period since 1945. In West Germany and Japan there were massive movements of Germans from ceded territories in the East and of Japanese from the Asian mainland. Everywhere except in the UK, which had already run down its agricultural population before 1900, there also followed a massive movement of workers from relatively low productivity agriculture to more productive industrial employment: this was an especially powerful factor in France, Italy, and Japan, and more recently in China. Everywhere there was also a post-war baby boom, especially significant in Japan which combined very high birth rates with increasingly successful technical education to generate the Japanese economic miracle of the 60s through to the 90s. Amid the spirit of optimism which is characteristic of periods of fast economic growth there was little public resistance to the increasingly large importation of labour from the less developed world – from Algeria into France, from Turkey into Germany, from the Caribbean and the Indian subcontinent into Britain, and from Latin America into the USA.

An important historical point to note is that it was the high rates of economic growth in the post-war period which enabled the running down of the debts incurred during the War – leaving aside those who simply defaulted, notably the defeated powers, Germany, Japan, and Italy.

One of the most important things now going wrong across the world, and especially in Europe, is the reversal of these earlier positive demographic factors, together with the emergence of a host of negative consequences from immigration which had not been foreseen. Internal migration from less productive to more productive areas and activities seem to be running out of steam, after a brief resurgence in Europe in the noughties with the transfer of the East European territories, including East Germany, from the Russian bloc to the West. In China such internal migration contributed mightily to the take-off of the Chinese economy in the 90s and noughties, but this is also now slowing down.

Meanwhile, the boomers of the post-war period have not reproduced themselves. I am a case in point: my father, born in 1913, was one of seven children: born in 1946, I was an only child: and apart from a son who died as an infant my wife and I leave no successors. Women's Lib is a major factor here: modern Western women prefer gainful employment to bringing up children – last year in the UK there were more than a quarter of a million abortions, alongside the arrival of 776,000 immigrants. The consequence is an increasingly adverse "dependency ratio", between an increasing number of the unemployed old and the elderly on the one hand, and the working young and the middle-aged on the other. I will return to this point later, when I discuss the problem of Entitlements.

At the same time, another important demographic development is the increasing resistance of native and assimilated populations to the importation of so-called *Gastarbeitern* or "Guest Workers" from the Third World. Note that this resistance is not coming only from white natives: it is also coming from assimilated immigrants – figures like Suella Braverman, Priti Patel, Kemi Badenoch and Shabana Mahmood in the UK and others like them in the USA and in continental Europe. Fueled by this resistance to immigration, new and so-called "populist" political forces are emerging everywhere.
This is the basis of the MAGA movement in the USA, the Rassemblement National in France (co-led by the son of an Italian immigrant to France), *Alternative fuer Deutschland* in Germany, and in the UK first the Brexit party and now Reform (one of whose leading figures is the Muslim Zia Yusuf). Under Trump the USA is now carrying out a massive experiment in the curtailment of immigration. To the extent that this succeeds, the example is bound to be influential in Europe.

Will this hinder economic growth? Perhaps, but also perhaps not – after all, a large supply of cheap labour surely impedes productive technological innovation and investment in the training of the native workforce.

I turn now to the question of Entitlements.

Entitlements – As I have already mentioned, the influential French think-tank, the *Institut Montaigne*, recently published a sobering analysis of the future prospects for French public finances, focusing especially on the build-up of entitlement expenditures, notably pensions. While France is something of an extreme case, its situation is more or less typical for most countries in Europe, including the UK, and notably also increasingly for Germany –and also for the USA.

Over the period since 1945 every Western country has adopted policies of social protection whose expansion has been driven by strong incentives arising from political competition, which have led to massive increases in public spending and borrowing. This has especially been the case since the end of the Cold War in the 1990s and with it the cashing in of a so-called "Peace Dividend". Successive generations of politicians of the Left, Right, and Centre have won elections by issuing more or less blank cheques on the future. And in the context of the demographic developments which we have just reviewed, these blank cheques are now and increasingly in their turn coming in to be cashed …

We have already remarked on the reluctance of the French electorate and of French politicians to face up to these facts. Indeed, current French budgetary wrangling seems to be leading to the reversal of the most important fiscal achievement of the first Macron presidency, a modest increase in the pension age to a level which is still well below that of other comparable European countries.

Not that the situation in those other countries is much better than in France. Although the Labour government in the UK has a massive parliamentary majority, it has become clear that any serious cuts in social spending and therefore borrowing will not be supported by Labour backbenchers. And similarly in Germany's coalition politics the SDP - formerly the party of working people - has now become the party of Germany's non-working welfare and pension dependents.

A large part of "What is Going Wrong in Europe" can be attributed to this situation. Meanwhile, please note that while the Welfare State is less highly developed in the USA, China, and Japan, each of these countries is also exposed to the same damaging interaction between demography and social protection funded by public borrowing.

Taxation – One possible answer to these problems is of course to increase taxation, especially on those who Rachel Reeves has described as "having the broadest shoulders". Note that already before Labour's election victory last year 34 percent of British income tax was being paid by 1.7 percent of its population.

The basic problem here is that "the broadest shoulders" are those of the people who lead businesses and economic innovation, and who largely provide the funds required for the private investments which remain fundamental for economic growth in all capitalist countries. The era of wartime and post-war state control of movements of private capital is also long gone. The "broadest shoulders" and their capital and income are nowadays highly mobile and increasingly ready to move from high tax to low tax jurisdictions. I have seen reports in the UK press that over the past year some 16,000 millionaires have emigrated, as have large numbers of so-called "Non-Doms", all responding to more favourable taxation arrangements e.g. in the Emirates, or in Switzerland and even in Meloni's Italy.

Scandinavian examples in the past suggest that there is not a straight-forward negative correlation between high personal taxes and low economic innovation and growth. But another important factor in "What is going wrong in Europe and the UK" could turn out to be such a negative correlation – especially in a period when the USA is conducting a dramatic experiment in the reduction of income taxes, together with a shift to the taxation of consumption via tariffs on imports.

Regulation – I turn now to another important factor in "What is going Wrong", which is the excessive and increasingly intrusive regulation of economic activities, especially in Europe and the UK.

There are of course many and varied good reasons for almost every piece of regulation – and one of the central features of modern and contemporary politics in the highly developed democracies has been the emergence of all manner of charitable and activist special interest groups to promote such regulation. But regulation becomes a problem, not so much on account of its often-benign intentions, but rather in the processes involved in its application, in the all-too frequent disproportion between process and outcome, and in the cumulative effect of multiple regulatory processes interacting and bearing down on innovation.

The ambitious European pursuit of Net Zero is emerging as a dramatic instance of the disproportion between process and outcome. High energy costs in the UK and increasingly now in Germany are cutting the ground from under the feet of a host of heavy industries in return for savings in energy consumption which are very small relative to the increasing consumption of conventional energy in China and India.

With regard to the complexification of regulatory processes, let me give you an anecdote from my own personal experience. In 1986 as a keen young backbencher, I was appointed to membership of a special parliamentary select committee to hear petitions against the construction of the Channel Tunnel and its associated rail connections. We sat for more than a month in London and at Folkestone during the summer vacation.
This special parliamentary procedure had been used in the 19th century to enable the construction of the British railway system: it represented a survival from earlier times of parliamentary petitioning from which the idiom "it's in the bag" originated. The 1948 planning legislation which replaced this ancient mechanism by more modern lawyer-dominated procedures had retained the option of deploying it in special circumstances. I have a vivid memory of an after-dinner conversation with one of the lawyers involved in the petitioning process at the hotel in Folkestone where most of us stayed. He remarked that if the modern planning process had been followed, the necessary public enquiries would have lasted at least ten years – whereas our parliamentary committee had only to sit for six weeks before laying the basis for the Channel Tunnel Bill which provided the legal basis for the construction of the tunnel.

Famously the regulatory obstacles in France to such developments are or were much less effective. It is apparently a French dictum that "when one drains a swamp one does not consult the frogs". But on the other hand, consider the notoriously adverse economic consequences for France of the adoption of the legislation imposing a thirty-five working hours week under Mitterand in 2000.

One of the most pernicious features of European over-regulation is the way in which it tends to favour insiders over outsiders. The principal beneficiaries of regulation tend to be those working within any given system, who are in a strong position to influence the details of Regulation to their advantage. The losers are those outside the system, for whom the Regulation may function – and may even be intended to function – as a way of excluding them and the innovations that they might bring with them. Hence, among other things, the pervasive problem of youth unemployment or underemployment across Europe.

These issues were addressed in a report in 2024 by an Italian former President of the European Central Bank, Mario Draghi, on *The Future of European Competitiveness*. This makes for sobering reading, even though Draghi missed a central point, which is the way in which the European institutions seek to win the political support of insider interests by promoting regulations which favour them while at the same time making life difficult for would-be new entrants.

<u>Defective Economic Models</u> – All of his raises the question of "Economic Models". This notion of such models is more than a useful tool of analysis, although it is from the development of such tools of analysis in 18th century Europe that this idea originated, in the thinking of the French physiocrats and of Adam Smith. In this early form it was manifested in the contrast or opposition between the "Mercantilist" and the "Free Market" models of the economy, ie between an economic model which envisages economic policy as aimed at some purpose higher than that of the achievement of economic benefits, and an economic model which envisages such policy is aiming rather to maximise such benefits.

This was how the notion of an "Economic Model" became more than a tool of analysis: it became a way of organizing concrete and practical economic policy. In the 19th century the ideas of economic models as being either "Capitalist" or "Socialist" and even "Communist" were formulated, with later elaboration into such notions as "State Capitalism", or of "Totalitarianism", or of the "Social-Market Economy". This last was associated for example in Germany in the 1950s with the wider political philosophies of "Social Democracy" on the one hand and "Ordo-Liberalismus" on the other.

It is therefore possible to envisage different “Economic Models” as in some sense competing with one another, and as each having their own peculiar strengths and weaknesses. In this sense a crucial turning point was reached in the 1990s when it became apparent that Soviet-style “Socialism” or “State Capitalism” could not compete successfully with Western models of “Market “Capitalism”. In Russia “Socialism” was replaced by a system of private monopolies owned by so-called “oligarchs” and more or less tightly controlled by the state using terrorist methods. In China the private ownership of many kinds of economic asset (but not land) was also admitted, but with state-influenced and subsidised competition between economic actors as in post-war Japan, rather than the oligarchical monopolies favoured in Russia. In the four decades between 1990 and today this new Chinese economic model was an outstanding success, especially latterly in its favouring of radical technological innovations - just as the rather similar model had been outstandingly successful in Japan and South Korea in the 60s through to the 90s.

Meanwhile, in the West two rather different models of capitalism developed on the opposite sides of the Atlantic. In the USA free-market capitalism and light-touch regulation was buttressed by strong state investments in universities and in defence science and technologies. Although this American model has had its ups and downs, its track-record since 1945 has been outstandingly successful, retaining American predominance in a world of rapid economic development notably across Asia. In Europe, on the other hand, the dominant economic model has been that of the “Social Market”, notably as developed in post-war Germany. This model envisages the various “social partners” cooperating to maintain a balance between themselves in a system of more-or-less highly regulated competition. This model was very successful in the decades between 1950 and the noughties of the present century, but in the period roughly since the financial crisis of 2008 it is finding itself outcompeted on the one by the Americans and on the other by the Chinese.

I suggest that the defects in this European model have much to do with “What is going Wrong in Europe” today. For it has been under the aegis of the “Social Market” and its dialogues between the “Social Partners” that the great build-up of Debts, Entitlements, and increasingly burdensome Regulation has occurred in Europe. In today’s world the European presence in the world economy is shrinking with increasing rapidity, while the presence of China and more recently India has grown with astonishing rapidity, matched only by the continuing economic success of the Americans.

First Mover Advantage – Much of this has to do with what I think of as "First Mover Advantage". The modern economies that have evolved since the 17th century are critically dependent on technological developments of many different kinds, not only industrial and manufacturing but also financial and managerial.
In these contexts, although innovations are more or less rapidly diffused across the world, there have always been huge advantages in being the "First Mover" in the exploitation of new technologies. Financial and trading innovations powered the rise of the Dutch in the 17th century, just as industrial and manufacturing innovations powered the rise of the UK in the 18th and early 19th centuries – to the extent that in 1850 England had a higher share of the world's manufactured products even than that which was enjoyed by the USA in 1950.
And similarly it was its lead in second and third generation industrial technologies that enabled the rise of Germany in the late 19th and early 20th centuries.

Today the leadership in so-called fourth generation technologies has passed to the USA and to China, with Europe and notably Germany increasingly lagging behind. Many of the enterprises that currently dominate the world economy only came into existence in the past thirty years, everywhere supplanting the corporate giants of the 20th century. Most of these companies are American, quite a few are Chinese, some are Japanese, but only a very few are European. Another large part of the story of "What' Wrong with Europe" is to be found in Europe's loss of its historical "First Mover" advantages.

What Comes Next?

It is hard to be optimistic when we recall my account at the beginning of this talk, of the four scenarios envisaged by the *Institut Montaigne* for France over the decades before 2050. To break out of the bind in which France now finds itself, along with most of the other European powers, will require a level of realism and willingness to make sacrifices on the part of the European electorates and their political leaders that seems unlikely or even possible. We in Europe will perhaps be fortunate if we can simply succeed in muddling along with a continually diminishing presence on the world stage.

But this is not to say that the picture elsewhere is of a bed of roses. Russia is currently showing just how much damage can be done to longer-term economic development by political-military miscalculations of the kind that may well befall China if it attempts to take over Taiwan by main force. The Chinese economic model which succeeded so well in the period around and after the new millennium is also going to be subject to increasing demographic pressures on a scale that is even greater than those elsewhere. Huge manufacturing capacities have been built up in China which far exceed the ability of markets to consume its products. China is accumulating bad debts on a greater scale than anywhere else, even than in Japan after its similar period of over-rapid economic expansion. It may be that China is heading for an increasingly wide application of the principle of *tang ping*, or "lying flat" which has become so widespread among the younger generation that it has acquired its own very descriptive name.

Meanwhile under Trump America is experimenting with new economic and industrial policies which may turn out to be more successful than most suppose – but may also turn out to be more self-destructive than even its strongest critics expect.

But the future is of course one of Donald Rumsfeld's "known unknowns". On this equivocal note I conclude my remarks.