

Three megatrends will determine future growth in Europe



Rolf Strauch, ESM Chief Economist

“Three megatrends will determine future growth in Europe”

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Securing the role of Europeans in the world of tomorrow requires courage and vision, says Rolf Strauch. A deeper, single market and joint projects for sustainable growth would also strengthen Europe politically.

Three megatrends will determine Europe's future growth and have an impact on our lifestyle: ageing, climate change and geo-economic fragmentation. In addition, the legacy of current crises and higher interest rates will limit governments' financial room for manoeuvre. The question is therefore: What can Europe do to overcome these long-term challenges?

Megatrend 1: Europe's ageing population is reducing growth prospects and increasing fiscal pressure. We all aspire to live longer. But for the economy, an ageing society means less growth, innovation, and prosperity. In addition, population ageing is associated with rising costs.

Without migration, Europe's population will shrink by more than a third by 2099

Guaranteeing sustainable and socially acceptable pension and healthcare systems is the responsibility of governments. But that alone will not be enough. Without migration, the European population will shrink by more than a third by the end of the century. Even today's migration flows are not enough to maintain the proportion of working citizens.

The internal market of the European Union (EU) therefore needs labour market-oriented national migration policies and labour market mobility. At European level, the adoption of the Migration and Asylum Pact and the provision of sufficient financial and human resources can help to facilitate integration and gain the approval of citizens.

Megatrend 2: Climate change harbours transition risks and costs for the economy. Combatting climate change is the most important global task of the coming decades. The natural disasters of the past two years are a damning testimony. And worse is to be expected if we do not act. Preventing or at least mitigating the economic damage caused by climate change requires a drastic expansion of green infrastructure, climate-neutral production chains and the creation of green jobs.

Compliance with and protection of the common internal market is a European endeavour

However, the variously ambitious plans of the Member States, partly financed by the "Next Generation EU" recovery fund, are not enough to achieve the self-imposed 2030 climate targets. The reorganisation of the economic structure requires further national policy initiatives.

Compliance with and protection of the single market is a European endeavour. This also includes an integrated capital market for the urgently needed financing of private investments. We should also think about an insurance mechanism that offers people protection in the event of extreme natural disasters.

Megatrend 3: Geopolitical fragmentation causes human suffering as well as precarious economic effects. Europe - and Germany in particular - has benefitted greatly from deeper trade and financial integration over the past two decades. However, the high level of trade openness also means that the flow of goods, services and capital is susceptible to disruption. Germany is particularly affected by this.

This risk should be countered by diversifying supply chains or relocating production to Europe. We can do more to strengthen the European internal market - as the initiatives to improve the European energy market show. International competitiveness and strategic independence are inevitably linked to technological innovation and investment. In addition to national policy initiatives, pooling resources in European projects can be more cost-effective and a standardised banking and capital market can facilitate financing.

Securing Europe's role in the world of tomorrow requires courage and vision. A deeper, single internal market and ambitious European projects for sustainable growth - such as the "Next Generation EU" recovery programme - will also strengthen Europe's political voice. And one thing is also clear: the upcoming European elections will set the starting point for the decisive next five years.

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