

The risk of civilizational erasure in Europe and the US

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The conventional wisdom is that Europe's economy has fallen significantly behind the U.S. economy since the late 1990s. Much of this conventional wisdom is based on the undeniable fact that U.S. companies have achieved a sizeable lead over Europe in information technology and European productivity growth appears much lower than in the US. Euro-pessimism is rife even among Europeans.

A similar refrain appears in the White House's now-famous National Security Strategy that raises the risk of civilizational erasure in Europe: "Continental Europe has been losing share of global GDP – down from 25% in 1990 to 14% today – partly owing to national and transnational regulations that undermine creativity and industriousness."

Europeans have echoed this argument, some to call for deregulation and lower taxes, others to promise positive growth effects from pushing forward with the Green Deal or industrial subsidies. The US envoy to the European Union spoke with the same tone, claiming that even the poorest US states, such as Mississippi or West Virginia, now enjoyed a higher standard of living than Germany.

Is then a sclerotic Europe facing a supposed American El Dorado? One can, for example, note that the US share of global GDP has also fallen to the same 14% that Europe has. But fear of civilizational erasure stretches much further than just to economic aspects.

This brief examines a series of measures that could indicate whether countries are ascending or descending in terms of various dimensions of civilization. Since the term civilization is not well defined there is no clearcut overall answer. But along the way some surprising results emerge.

For one, the claimed growth advantage for the US is not what it is made out to be. American tech firms are driving registered productivity growth, mostly in California. While the rest of the US

and Europe seem to be lagging, competition among Californian tech firms disperses most of the value generated to the rest of the world. On top of that, the way productivity statistics are garnered tends to understate productivity growth overall, but most of all outside of the IT-sector. Therefore GDP-growth should be compared using purchasing power parities to correct for relative changes in prices between countries. The difference in economic growth then proves to be non-existent. Living standards have grown about equally in the US and Europe.

Broader measures of the quality of life seem to give western Europe an edge. Seven different indices point in the same direction: Several European cities and most western European countries are on top, while US cities and the US as a whole are further down the list.

Four aspects stand out. First, not only is life expectancy in the US remarkably short for a rich country and has been falling over the past decade, but even wealthy Americans face mortality rates similar to those of poor Europeans. Second welfare state outcomes are much weaker in the US, in particular compared to a number of low-tax countries such as Switzerland that rank in top, not just compared to high tax welfare states countries. Third, Europeans achieve their advantage despite working 10-15 percent fewer hours per capita. Finally, European countries top the ranks of democracy indices, while the US has regressed and is now classed as a “flawed” democracy.

Civilizational erasure

The collapse of civilizations has attracted enormous interest. Books, historical dissertations and popular science provide vivid descriptions of the Mayan or Roman empires and others that have truly collapsed. In modern times, however, civilizational collapse is rare. Instead, civilizations wither, worn down by war or civil war, poor democratic choices or takeovers by autocrats or dictators. In many cases all these factors play in. For example, Argentina’s one hundred years of decline contained poor democratic choices and economic policies, but also dictatorship and war. In many cases, like in Argentina, withering countries eventually face crises that evoke reforms and revival.

How then could one measure civilizational collapse or withering? The Oxford English Dictionary describes civilization as “a developed or advanced state of human society, a rather vacuous definition as long as “developed” or “advanced” are undefined. The term civilization is often interpreted in different ways, emphasizing technological and economic achievements, ethical and legal standards or cultural prowess.

This brief compares various dimensions of civilization, beginning with economic and technological achievement.

GDP measures get IT all wrong

At first glance, the statistics seem to support this hypothesis: The US gross domestic product – that is, the value produced on American soil – appears to have increased much faster than that of

the EU over the past 20 years. In reality this mainly reflects how national accounts misrepresent the way IT and tech affect incomes and standards of living. As shown further below, once this and other differences such as higher US population growth are taken into account, Europe does not really lag.

An initial simple way to see the problem with the way productivity growth is measured is to compare productivity divergences between California, where much of the U.S. tech sector is located, and the rest of America. Using data from the Bureau of Economic Analysis, showing percentage changes in real GDP per worker over the period 1998-2024 shows growth of 55 percent in California, but only 28 percent in the rest of America. The gap is even wider than the gap between the US and the EU.

Yet few Americans worry that life in California is much more prosperous than in other parts of America. Or they don't even register the gap since GDP and productivity are generally compared at the country level.

It all boils down to a sprat plaid by the national accounts. The most common approach is to add up all production¹ and adjust item for item for how prices have changed. Herein lies the rub. Today's computers can execute thousands of times as many instructions per second as cutting-edge computers in the late 1990s. Does that mean that productivity in the computer sector has risen by several hundred thousand percent? Clearly not in any economically meaningful sense: a computer that can process a thousand times as much data as an old computer is better, but not a thousand times better. Statisticians therefore try to measure productivity in tech with "hedonic" indices that attempt to measure how much a productivity gain are actually worth to people, rather than using physical measures of output. Alas, these hedonic measures leave plenty of room for dispute.

Still, since IT-products generally come with good measures of technical performance they end up being registered with considerable improvement. For example, if a new smartphone is sold for the same price as last year's model but has a 50% faster CPU, the statistical agencies may end up recording this as equivalent to, say, a 20 percent price fall or a 20 percent productivity increase if the phones are produced with the same input of labor and capital. Examples are Intel, long a leading company in the computer chip industry, and Ericsson, a leader in the mobile telephony infrastructure. The performance of their products increased 10^5 - 10^6 times since 1990. Yet the quality improvement imputed to the electronics sector in European and American national accounts is only about 300 percent since 1990.

Some argue that even productivity increases in the IT-sector are understated,² but the truly big underestimation occurs in other sectors of the economy.³ Economists and other social scientists have always known that economic growth as defined in terms of value added or GDP misses

¹ Or all expenditure in a country - mostly consumption, investment and government spending – if GDP is calculated from the demand side rather than the production side. In theory these should then be equal.

² For example Fölster and Litwin, 2023.

³ An influential overview by Martin Feldstein, 2017, concluded that measurement problems, even within the framework of what GDP intends to measure, have grown to the point where the GDP measure can at best be seen as a minimum measure, with a potentially very high degree of underestimation.

many aspects of quality of life such as health, a sound environment or social justice. A new reality is that not even economic value creation is captured well.

The main reasons are that value creation through new products that replace old ones is rarely registered, and that quality improvements even for existing products are not estimated well and hardly measured at all for services.

For example, thanks to IT-advances the cost of scanning a human genome has tumbled much faster than would have been predicted even by the famous Moore's law in electronics.⁴ Yet the benefits that eventually arise in terms of new medicines and medical treatments are not captured in the national accounts at all. This is not a quirk. Productivity jumps due to new products or services that replace poorer alternatives are essentially never assessed in the national accounts.⁵ Productivity is only measured in terms of lower price for better existing products and services. Since many of these new products and services appear in industries that are not tech, productivity growth in non-tech is underestimated even more than in the narrow segment of tech firms that stand for much of the registered productivity increase. One example of many is computer designed mRNA-vaccins against covid which left no footprint in national accounts. Another example is how digital identification and technology have changed banking for customers. In the national accounts improved banking hardly registers.

In fact, many of the industries where Europe has a technological edge are such that productivity growth will be poorly captured by national statistical agencies. In 2025, Europe maintains significant technological leadership in sectors that prioritize specialized industrial engineering, sustainability, and deep-tech manufacturing. While it trails the U.S. in consumer-facing digital platforms, it holds a dominant or leading position in several critical niche and foundational areas. Europe's most significant technological "monopoly" is in high-end semiconductor lithography as provided by ASML (Netherlands), the world's only manufacturer of Extreme Ultraviolet (EUV) lithography machines, essential for producing the most advanced chips used in AI and smartphones.

Beyond ASML, countries like Germany, Italy, and Austria are global leaders in the precision tools and robotics that underpin global electronics supply chains. Airbus outperforms Boeing in aircraft orders, deliveries, and net profits. Europe specializes in the "digitalization" of physical industries through companies like Siemens and Bosch, for example integrating AI and software with hardware to create "digital twins" of factories. While U.S. firms dominate social media, European firms lead in back-end financial and enterprise systems with companies like Adyen (Netherlands) and Klarna (Sweden) being global leaders in payment processing and digital-first banking infrastructure. SAP remains the global leader in Enterprise Resource Planning (ERP), powering roughly 87% of total global commerce.

In conclusion, productivity growth appears to be severely underestimated in general but captured somewhat in the IT- sector. That is the main reason why California has much higher registered productivity growth than the rest of the US, and the US has higher productivity growth than Europe. The key question is how the American tech industry, with its exceptionally rapid productivity growth, actually translates into changes in Americans' living standards. If

⁴ See Fölster and Litwin, 2023.

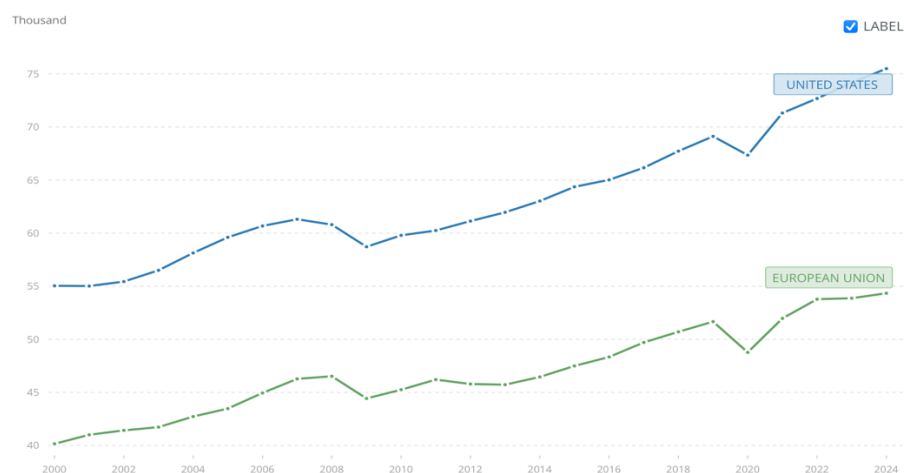
⁵ Unless they are intermediate products that increase productivity in production of the final good.

technological progress is much faster in tech than in non-tech and more of tech is localized in a part of America will this translate into a rising standard of living for Americans relative to Europeans?

The answer to this question depends on the degree of competition. Rising productivity will be passed on to consumers around the world through lower prices. Even if the competition is imperfect, so that there are big profits for a few firms, many of the benefits of technological progress will still diffuse worldwide. For example, long-time IT leaders such as Intel or Ericsson mentioned previously have seen their markets grown significantly. Nevertheless, the revenue of these companies increased much less than their registered productivity and their profits hardly stick out in the business world.

One way of seeing this is to compare the growth of GDP measured in terms of purchasing power parity where adjustment is made with respect to changing cost-of-living differences between the respective countries. Once price levels are thus taken into account, there is no American miracle, nor is there stagnation in Europe. Adjusted for cost-of-living differences GDP has risen by 38 percent in total in the US and by 35 percent in the EU since the year 2000.⁶

GDP per capita adjusted for PPP (purchasing power parity)



Source: World Bank.

Even though the gap has not widened, there is a gap. Part of this is due to fact that large parts of Europe were poor much longer due to dictatorships such as in Spain, Portugal, and the countries in the former Soviet Union. The US has also attracted much talent and wealthy people that have helped to lift incomes. In spite of those factors living standards in Europe have in many respects surpassed those in the US.

⁶ The picture is similar if one compares the period 1990 to 2024. The average annual growth of 1.6% in the US, compared with 1.5% in Europe over this period. <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?end=2024&locations=US-EU&start=2000>.

Comparing standards of living

Several aspects stand out when comparing standards of living. We will examine those first before giving an overview of various indices that have been compiled to capture how well civilizations work in terms of quality of life and human development.

Life expectancy

Life expectancy in the U.S. lags behind the European Union (EU), with recent data showing the U.S. at around 78.4 years (2023) compared to the EU's 81.7 years (2024), a difference of over 3 years, despite the U.S. spending nearly twice as much on healthcare. The gap to the richer European countries is even wider, exceeding five years. Americans' life expectancy lags way behind peer nations, ranking 48th globally. Higher mortality from firearm injuries, drug poisonings, and motor vehicle crashes contribute to the gap as well as life style factors.

Even more remarkable is that even rich Americans are challenged. A study led by researchers at Brown University, published in April, found that the richest people in America have a mortality rate similar to that of the poorest northern and western Europeans. Adjusting for individual characteristics suggests that the US disadvantage is not explained by population differences. Relative to comparator countries, the USA had a younger population and lower smoking rates, but it had higher obesity prevalence, calorie intake, illicit drug use, and gun and vehicle ownership. Regarding public health policies that lie largely outside the health-care system, the USA compared unfavorably to comparator countries.⁷ The gap between the US and comparable countries is even greater when it comes to years of life with disability.⁸

Working hours

Working hours per capita are 10-12 percent lower in the EU compared to the US. The gap has shrunk since the year 2000 but is still significant. More importantly, however, the gap is especially wide between the US and many of the richer EU countries such as Germany (16 percent) or France (22 percent). One can discuss whether this is good for the EU. Fewer working hours could, for example, be a detrimental side effect of higher taxes on labor income. Even so they give people options to pursue pleasures that they would have sacrificed if they had worked more.

⁷ Papanicolas et al., 2025.

⁸ This is measured as Age-standardized disability adjusted life year (DALY) rate per 100,000 population. Lower rates of disease burden (DALYs) indicate improvement in preventing, treating, and curing diseases or reducing known risk factors.

[https://www.healthsystemtracker.org/indicator/health-well-being/disability-adjusted-life-years/#Age-standardized%20disability%20adjusted%20life%20year%20\(DALY\)%20rate%20per%20100,000%20population,%202021](https://www.healthsystemtracker.org/indicator/health-well-being/disability-adjusted-life-years/#Age-standardized%20disability%20adjusted%20life%20year%20(DALY)%20rate%20per%20100,000%20population,%202021)

Democracy

According to the Economist democracy index the US is now on 28th place, trailing most European countries and classified as a “flawed democracy”. Western European countries have on average lost a little ground since 2006, but the US has regressed considerably.

While there isn't a single, universally accepted "Civilization Index"—partly because the term "civilization" is subjective and can be controversial—several prestigious indices rank countries by the modern metrics we typically associate with a "civilized" society: quality of life, social progress, and human development.

Each of the following indices uses a different lens to define what a "successful" or "high-quality" society looks like.

1. The Human Development Index (HDI)

Published annually by the United Nations, this is the most famous metric for ranking countries by their "level of development." It treats civilization as a product of health, education, and Gross national income. Top Performers: Switzerland, Norway, and Iceland are perennial leaders. The US is in 17th place, trailing most western European countries.

2. The Legatum Prosperity Index

This index defines civilization through the lens of prosperity, which they argue is more than just money but also the freedom and safety to build a good life. Governance, social capital, investment environment, and personal freedom are measured. Top Performers are Denmark, Sweden and Norway. the United States was ranked 19th out of 167 countries, reflecting both its strong economic power and areas where it lags in overall wellbeing, particularly in safety and security compared to other developed nations.

3. The Economist Intelligence Unit's (EIU) Global Liveability Index 2024

Western European cities and Australian/New Zealand cities continue to dominate the top ranks due to excellent public services, stability, and infrastructure. U.S. cities ranked moderately, with Honolulu (23rd) being the highest, followed by Atlanta (29th), Pittsburgh (30th), Seattle (34th) and Washington D.C. (38th), with major hubs like New York and Los Angeles generally placing lower due to factors like stability and infrastructure challenges compared to smaller cities.

4. Mercer Quality of Living Survey

Mercer's index is designed specifically for expatriates and international employees. It weights "political and social environment" and "consumer goods availability" more heavily than others. Top cities are Zurich (Switzerland), 2. Vienna (Austria), 3. Geneva (Switzerland). US cities rank similarly to the Economists Global liveability index above. Key drivers are public services, transport, and ease of doing business.

5. Numbeo Quality of Life Index (Country & City)

Numbeo uses a massive database of user-contributed data and hard statistics. It is unique because it factors in purchasing power and property affordability, meaning a high salary doesn't help if rent is impossible. The top countries in 2025 were 1. Luxembourg, 2. Netherlands, 3. Denmark, 4. Oman, 5. Switzerland, with the US in 15th place. The top cities were 1. The Hague (Netherlands), 2. Groningen (Netherlands), 3. Eindhoven (Netherlands), 4. Bern (Switzerland). Key drivers are High safety, excellent healthcare, and short commute times. US cities have fallen behind.

6. The Good Country Index

Rather than just looking at how a country serves its own citizens, this index ranks countries based on how much they contribute to the common good of humanity and the planet. It actually includes a sub-index specifically for "Culture and Civilization." The top performers frequently include the Netherlands, Denmark, Germany, and Finland. The US ranks 46th.

7. The Social Progress Index (SPI)

The SPI claims to measure the "quality" of a society by ignoring economic data (GDP) entirely. It focuses only on social and environmental outcomes. Top Performers: Norway, Denmark, and Finland usually lead this list. The US ranks 31, falling slightly since 2011.

There are further indices of living standard and life quality. By and large they mirror the results shown in the above seven. One more is described in greater detail below since it adds some intriguing results

The US and Europe are in different leagues in terms of welfare outcomes

A group of low-tax countries now delivers the best welfare in the world. That is the striking finding of a new book from the Institute of Economic Affairs.⁹ The new analysis compares welfare outcomes across developed countries in four key areas: health, education, the labor market and social inclusion. Drawing on comparable data since 2010 it find that the best welfare outcomes are consistently achieved not by high-tax welfare states, but by low-tax, high-efficiency ones.

Alas the US is an exception. Despite low taxes, it ranks 19th, below most European countries. At the top of our global welfare ranking sit Japan, South Korea and Switzerland. Sweden, once the poster child for the big-state model, now languishes in 12th place. The UK does slightly worse at 15th.

⁹ Fölster and Sanandaji, 2026.

Indeed, across the analysis, there's little evidence that high taxes translate into better welfare. Countries with lower taxes tend to enjoy stronger labor markets and lower unemployment, since private enterprise isn't smothered by excessive government spending. Health outcomes are not systematically worse – and in some cases are better. Only in the area of social exclusion do higher-tax nations hold a slight edge, though even here countries like Japan and Switzerland show that strong communities can flourish without excessive redistribution.

High tax countries appear to fall victim to *welfare state crowding out*. When policymakers take the ability to raise taxes for granted, inefficiency follows. Bureaucracies expand, incentives erode, and resources are lavished on extravagances rather than essentials. Over time, this crowds out the core welfare functions that taxes were meant to fund. Yet, the US example shows that low taxes are no guarantee for efficient welfare delivery.

Europe is doing better than many think but could do even better

All three large economic blocks, the US, China and the EU are constrained by different huge policy failures. A cloud hanging over the American economic outlook is the unsustainable budget deficit and a possible AI-bubble, on top of tariffs and curtailed inflows of high-skilled immigrants.¹⁰ China fails to come to grips with its housing crash and repressed consumption. The block that first manages to extricate itself from its failures therefore has the potential to win decisive advantage.

Europe has its fair share of macroeconomic issues as well. Most unnecessary of these is the deluge of regulation. Just one piece of evidence comes from a new study by Pfaffl et al. (2025) who examine the overall economic costs arising from high levels of bureaucracy. They find that fundamental reduction in bureaucracy is accompanied by a 4.6-percent average increase in real GDP per capita. Using Germany's GDP as a case study, this would correspond to an annual increase in real GDP per capita of EUR 1,766. They argue that a digitalization push in public administration can increase the level of real GDP per capita by 2.7 percent while maintaining the same level of bureaucracy. Moreover, the positive impact of digitalization is particularly strong in countries with high levels of bureaucracy.

According to one research-based calculation, the European economy has potential to be boosted by a full 10 percentage points above normal growth over a ten-year period.¹¹ This addition corresponds to five times the current defense spending of EU countries and, in addition to securing defense capabilities, would cover both the green transition and welfare needs.

The calculation is based on indices of so-called economic freedom, which, according to research, causally influence growth. These indices compile the degree of regulation, rule of law, tax burden, and efficiency in public institutions. Achieving this growth potential requires EU countries to move from the average index score (where Germany is) to a higher level of economic freedom, similar to Ireland or Denmark.

¹⁰ See for example Rogoff, 2025.

¹¹ Fölster, 2024.

So far, national political deadlocks have stood in the way of necessary reforms. However, the current security situation creates new openings. In addition, levers could be created for reforms both within and outside the EU. One example would be to introduce “regulation crushers” such as exempting defense-related startups from the thicket of new EU regulations on digital technology and expanding the EU’s speeding up of licensing, already decided for green investments under the “Net Zero Industry Act,” to all areas.

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