



By: **Andrés Velasco**

Europeans can no longer afford their leaders' passivity



With the United States unhinged, China increasingly authoritarian, and Russia in full Dr. Evil mode, the world desperately needs a good guy to believe in.

There is only one candidate for the job: Europe. No other country or region is free, prosperous, endowed with the right values – and large enough to be an example to the world.

But it is not enough for good guys to be good. They also must be strong and determined. And that, I am afraid, is where Europe falls short. Right now, Europe looks anything but strong. It looks wimpy.

First came the so-called trade **deal** with the US. As my London School of Economics colleague Luis Garicano **wrote**, it was “not a deal, but a surrender.” Europe made a number of concessions, including **acceptance** of 15% tariffs on its key exports, in exchange for nothing.

Then came the August 18 gathering of European leaders in the White House. If there is one art President Donald Trump practices to perfection, it is scene-setting.

He sat in his big reclining chair, behind his big desk, while the leaders of Germany, France, Italy, Finland, Ukraine, and the United Kingdom, plus the president of the European Commission and the secretary-general of NATO, cowered on the other side like supplicants hoping to land a job on his old reality TV show *The Apprentice*.

No picture could better convey the stark asymmetry in gall – and in real power.

But there is no reason why Europe is condemned to genuflect before a rogue US president.

Europe has a much larger population than the US, and the combined GDP of the European Union, the UK, and other rich non-EU countries, like Norway and Switzerland, comes close.

Europe's weakness reflects its own mistakes

The truth is that Europe's weakness reflects its own mistakes.

Start with the biggest of them all: security. Garicano puts it well: “You cannot win a trade war against the army that protects you.”

Sixty years ago, French President Charles de Gaulle's fixation on an independent European defense capability looked like Gallic obstinacy. Today, it looks visionary.

Russia's aggression has revealed that Europe is naked without US security guarantees – which cannot be relied upon as long as Trump is president.

Europe is not doing enough to address its security deficit

Europe is not doing enough to address its security deficit. Granted, defense spending has been **rising**.

Of 28 European NATO members, 20 spent more than 2% of GDP on defense in 2024 – an increase of 0.6 percentage points in just two years. But that is still a far cry from the 3.4% the US spends, and Poland's 4.7% projected for 2025.

Europe's defense procurement is also maddeningly fragmented, with each country trying to create jobs by buying weapons locally. The result is inefficiency and delays.

The **proposed** European Defense Mechanism, which would include Britain and serve as a joint procurement agency, is a much better way forward, as is the idea (at least for the short run) of buying from the US the weapons Ukraine and Eastern Europe need to be safe.

A joint eurobond would bring huge benefits to Europe

All of which leads to the question of how Europe can pay for its rearmament. The EU has not **completed** either a capital-markets union (to allow companies to borrow more cheaply across the continent) nor a **banking** union (to break the “doom loop” between banks and their national governments).

Nor has it permanently created a class of bonds issued jointly by the EU on behalf of all its members.

A pile of EU debt was issued under emergency powers during the COVID-19 pandemic, but it is not clear that this debt will be renewed when it matures, much less serve as the foundation for something bigger and more lasting.

That is a pity, because a joint eurobond would bring huge benefits to Europe. Not only does it make perfect economic sense to finance the continent’s joint defense by issuing joint debt obligations. Eurobonds would also help turn the euro into a global safe asset, and the time is ripe for that change, too.

Bonds backed by the EU, and not subject to the political and economic ups and downs of individual countries, would be safer and more liquid

After all, thanks to Trump’s antics, the dollar is looking more and more like an emerging-market **currency**, and investors everywhere are searching for an alternative.

From an investor’s point of view, bonds backed by the EU, and not subject to the political and economic ups and downs of individual countries, would be **safer** and more liquid.

So, they would carry a lower interest rate, allowing Europe to save plenty of money.

The world’s only remaining good guy

But a global euro would also likely be a stronger euro, and that causes politicians from export-oriented economies like Germany and the Netherlands to hesitate.

But maybe a stronger euro would be the perfect excuse to complete the other gargantuan unfinished task: the single market.



When Angela Merkel vowed that there would be no eurobond “as long as I live,” she was not practicing far-sighted statesmanship, but trying to reassure local beer-hall nativists

The EU is supposed to be a fully unified market for trade in all goods and services, but the truth is that many barriers **remain**.

For every 100 euros of value added in EU countries, only 20 euros of goods flow back and forth between them. For the US, the equivalent figure is 45 out of every 100 dollars.

This costly fragmentation was a main theme of the weighty Draghi **report** on EU competitiveness, released in September 2024 – and now gathering dust on a shelf in Brussels.

Europe’s external wimpiness is the result of its internal wimpiness. For all of Europe’s lofty claims to enlightenment, the continent’s politics remain as petty and short-sighted as those of any local town hall.

When former German Chancellor Angela Merkel **vowed** in 2012 that there would be no eurobond “as long as I live,” she was not practicing far-sighted statesmanship, but simply trying to reassure local beer-hall nativists.

And when, more recently, liberal-

internationalist French President Emmanuel Macron did everything in his power to **block** the EU-Mercosur trade deal, he was pandering to domestic farmers.

If that is the leadership Europe gets from its most prominent figures, what can Europeans expect from the continent's lesser politicians?

With Trump threatening from one side and Putin from the other, Europeans can no longer afford their leaders' passivity. The world's only remaining good guy needs to step up. Democrats everywhere are waiting.

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