



By: **Kenneth Rogoff**

European way of life – a unique advantage among AI-driven economies



In many respects, the European Union appears likely to become one of the AI revolution's biggest losers, with China and the United States leaving its economies in the dust.

Even if European energy policies were not already making a massive data-center buildout prohibitively expensive, its fragmented capital markets would make raising the necessary financing extraordinarily difficult.

Europe's high tax burden, in particular, makes it harder to cultivate and retain AI superstars, much less attract them from abroad.

Meanwhile, its ever-expanding regulatory state discourages business formation and entrepreneurship.

But even without the AI boom, Europe's aging welfare states look increasingly unsustainable.

Economic growth has been glacial—**Germany**, the continent's largest economy, has effectively stalled—while rearmament is placing ever greater demands on public finances.

Compounding these problems is a shortage of centrist political leaders capable of containing **populist movements** on both the left and the right, both of which would likely favor higher public spending if they gained power. As a result, a major crisis seems inevitable.

And yet, Europe does have one decisive advantage: its societies are far further along than those of the US and Asia in adapting to a world of abundance.

Europeans are less career-oriented than most Americans or Asians

Thanks to generous welfare states and tax systems that encourage individuals to seek refuge in non-market activities, Europeans are generally less career-oriented than most Americans or Asians, placing greater value on leisure, community, and culture.

They take longer vacations, work fewer hours, and spend more time with family and friends—though this has not spared the continent from the global collapse in birth rates.

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To be sure, the EU is currently pursuing abundance while sapping its economies of the dynamism needed to achieve it.

If global real interest rates remain elevated for a prolonged period, its heavy debt burden will continue to act as a drag on growth.

Given their strained public finances, it is far from clear how Europe's economies could absorb a major shock—whether cyberwar, **conflict over Taiwan**, or something else—without triggering another debt or financial crisis.

The good news is that debt crises eventually end. If AI ultimately delivers extraordinary productivity gains without giving rise to any of the catastrophic scenarios predicted by tech skeptics, Europe could emerge as the world's premier lifestyle destination.

People may travel there not only to buy luxury goods, but also to learn how to make the most of their newfound free time.

Consumption taxes

If Europe can teach the world how to live in an age of abundance, it may have just as much to teach policymakers about governing one.

Its value-added tax (VAT) system, for example, looks increasingly like a tax structure designed for a post-work economy—or at least for one in which consumption is taxed more heavily than labor income.

Consumption taxes are generally more efficient and less distortionary than income taxes, and encourage saving, even if they can be somewhat more difficult to administer.

Europe's long-standing political consensus in favor of income and wealth redistribution may prove an unexpected strength

Moreover, VATs are more politically feasible than wealth taxes yet achieve many of the same objectives by reducing the purchasing power of capital.

While a VAT can have regressive effects, these become much less concerning when the revenues are used to finance large transfers to low- and middle-income households.

Europe's long-standing political consensus in favor of income and wealth redistribution may prove an unexpected strength.

If AI significantly reduces labor's share of income, societies already accustomed to redistributive policies may adapt more easily than those built around work as the primary source of income.

Immigration remains a major challenge

Immigration, however, remains a major challenge. Europe's relatively **generous welfare states** have found it much harder to integrate large migrant inflows than America's market-oriented system.

In the US, many immigrants understand that they need to find work, as access to federal benefits is generally contingent on immigration status.

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In much of Europe, by contrast, asylum seekers and recognized refugees receive publicly funded housing and benefits, adding strain to increasingly overburdened welfare systems.

With more time on their hands and fewer economic outlets, citizens may become even more resentful of perceived competition from immigrants, creating fertile ground for increasingly noxious politics.

Preserving democracy

For all of Europe's current **energy problems**, the picture could look very different in another decade or so.

Assuming green technologies continue to improve, the continent may ultimately find itself on the right side of energy history.

Conversely, America's renewed emphasis on fossil fuels under President Donald Trump could leave it with comparatively high energy costs, rather than the cost advantage it has long enjoyed.



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That, along with the absence of a Trump-like political figure, may be one reason it has been somewhat more successful at preserving democratic norms.

None of this diminishes the formidable challenges facing Europe in an AI-centric world.

Its relative economic decline may continue for years to come. Still, if AI lives up to its promise and ushers in an age of material abundance, Europe may discover that its greatest comparative advantage lies not in building the most advanced systems, but in demonstrating how to live well in the world they create.

Unfortunately, as chess players like to say, before the endgame, the gods have placed the middlegame.

Europe may have compelling ideas about how to live in an age of abundance, but it must first find a way to get there.

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