TA Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Stimulus addiction has led European economies into stagnation



European governments have spent years promising that each new spending programme would unlock growth. Recovery funds, subsidies and state-directed investment were presented as engines of transformation. However, the latest figures reveal something far less impressive.

After successive rounds of public stimulus, the euro area remains trapped in weak growth, with its largest economies struggling. Net zero policies, big government and high taxes have not delivered welfare, affordability or competitiveness, only stagnation and social discontent.

Eurostat's preliminary estimate, published on 30 October, shows euro-area GDP rising 0.4% in the third quarter of 2026, following 0.6% in the second. Annual growth was just 1.3%.

Germany expanded 0.2%, Italy stagnated and France contracted 0.1%. These are dreadful results for a continent whose political leaders repeatedly call public spending an investment in the future.

It is worse. The headline also flatters underlying performance. Ireland's GDP jumped 5.5%, following a 10.2% rise in the previous quarter. Excluding Ireland, euro-area growth was approximately 0.2%.

That is not zero, but it shows that the large economies in the euro area are experiencing a private-sector recession, as GDP growth is bloated by government spending.

A more positive story?

Spain appears to offer a more positive story. GDP increased by 0.6% in the quarter and 2.7% over the year. That growth is real.

However, aggregate output and individual prosperity are different things. Adding migrants expands an economy without necessarily producing a comparable improvement in output per person.

Interestingly, the IMF shows that GDP per capita in Spain will grow by only 1% per annum, exactly the same rate as in the euro area between 2018 and 2026. Thus, the central bank of Spain projects productivity per worker to grow by only around 0.5% in both 2026 and 2027.

Migration is not inherently a source of decline. Its economic contribution depends on employment, skills, investment and integration. The policy failure lies in treating population expansion as a substitute for productivity.

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The wage evidence exposes that weakness. According to the OECD's July assessment, Spanish real wages remained 2% below their first-quarter 2021 level.

Spain is the only economy in the euro area where productivity has not improved since 2018, according to the IMF. The OECD expects real wages to stagnate through 2026 and 2027. Real net wages have declined by 3.5% since 2018.

Spain's expanded recovery plan was approved at €163 billion, comprising €80 billion in grants and €83 billion in loans. ABN AMRO suggested that Spain's latest quarterly growth probably benefited from a rush to use remaining recovery funds before they expired.

The question is therefore not whether spending temporarily supports demand. It does. The question is what remains afterwards. If productivity advances by roughly half a percentage point, policymakers cannot simply point to disbursements and declare the transformation accomplished.

France is the warning

France shows why fiscal scale should never be

confused with economic strength. Its economy contracted by 0.1% both quarter on quarter and year on year.

The OECD puts public expenditure at around 57% of GDP, 7.4 percentage points above the euro-area average. Yet this enormous state has neither helped the country become richer nor spared it from stagnation.

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The tax burden is staggering. For a single average-wage worker without children, France's tax wedge reached 47.2% in 2025.

This measures income tax and employee and employer social contributions relative to total labour costs.

Almost half the employment cost disappears into that wedge before becoming take-home pay.

The appearance of progress

The euro area's stagnation follows a series of public stimulus plans that have mobilised trillions of euros and delivered only more debt and stagnation.



Governments should stop presenting the expansion of their own budgets as evidence of national strength - Daniel Lacalle

Europe needs a different strategy: not funds announced, subsidies allocated or populations enlarged, but higher productivity, more competitive investment and stronger purchasing power.

Governments should stop presenting the expansion of their own budgets as evidence of national strength.

Without stronger incentives to produce, invest and build, successive stimulus packages risk financing the appearance of progress while leaving the foundations of prosperity unchanged.

Europe needs to lower taxes, cut government spending, eliminate unnecessary regulation and misguided "environmental" plans that have backfired, and centre economic policy on real competitiveness and the attraction of capital.

If not, France will be a warning sign of the future for all other countries.