SPEECH

Made in Europe

Speech by Isabel Schnabel, Member of the Executive Board of the ECB, at a lecture in memory of Eugen Böhm von Bawerk, Österreichische Akademie der Wissenschaften

Vienna, 11 February 2026

We are living through a period of radical transformation. Technological progress is accelerating alongside profound geopolitical shifts, rewriting the rules that have governed global growth, trade and security for decades.

In this polarised world, Europe is often portrayed as a continent in decline, squeezed between geopolitical rivals, held back by excessive regulation and struggling to keep pace with rapid technological change.

In my remarks this evening, I will argue that although this narrative is appealing in its simplicity, it is misleading.

By many measures, Europe is among the regions with the highest quality of life, grounded in strong institutions, a high degree of social protection and an exceptional capacity to adapt in times of crisis.

Europe can build on these fundamentals to become even stronger.

I will explain that the key is to unlock the full potential of the Single Market – one of Europe's most powerful assets – to deliver what Europe lacks today: not talent, not ideas, not research – but scale.

A 28th regime would be a true game changer in this respect.

By giving firms seamless access to the entire European market, it would provide the scale needed to convert innovation into economic growth. It would allow Europe to compete as one economy rather than 27, and help create something Europe has long been missing: a true "Made in Europe" brand.

Europe leading the way in quality of life and democratic values

Europe stands out globally for its quality of life, built on strong economic, social and institutional foundations.

Happiness and life satisfaction in Europe consistently rank among the highest in the world (Slide 2). This goes beyond income or wealth – it reflects the broader conditions that allow people to live secure, fulfilling and prosperous lives.

Social protection, accessible public infrastructure, high-quality public education and family support help turn economic prosperity into tangible improvements in people's lives.[1]

Health outcomes are particularly revealing here.

A child born in Spain or Italy can expect to live more than five years longer than a child born in the United States (Slide 3), despite the United States spending a far larger share of GDP on healthcare than any other advanced economy. Even among the wealthiest Americans, mortality rates are merely at the level of the poorest populations in parts of Europe.[2]

Europeans also benefit from strong institutions. A growing share of the world's population now lives under de facto autocratic rule, while attacks on democratic freedoms continue at an alarming pace (Slide 4).

Against this backdrop, Europe's continued commitment to democracy, the rule of law and institutional checks and balances underpin trust and policy credibility, while independent media ensure accountability and transparency.

These institutions and principles give people confidence in their future and in the fairness of society, even in the face of adversity.

Rethinking the transatlantic prosperity gap: more leisure time, greater equality

So, throughout its history, Europe has made deliberate choices about the kind of society it wants to be. But while these choices have resulted in better life outcomes, they have also weighed on GDP per capita, adjusted for the cost of living, which is one of the most used indicators of economic prosperity.

By this measure, the euro area ranks below many other advanced economies (Slide 5).[3]

Part of this difference reflects the fact that some euro area economies are still catching up, mainly in eastern Europe. These countries are mostly growing rapidly, but their incomes remain below the euro area average, which dampens the headline number.

Yet, a substantial gap remains even for the more advanced euro area economies. Interpreting this gap requires careful analysis along three dimensions.[4]

First, a large part of the gap in income levels reflects *less* work rather than *less productive* work.

On average, an employee in the United States works around 40 days more per year than an employee in the euro area (Slide 6, left-hand side).[5]

A simple counterfactual shows that if Europeans were to work as many hours as Americans, holding productivity per hour and the employment rate constant, euro area real GDP per capita would be 21% higher.[6] That would close about two-thirds of the current real income gap with the United States (Slide 6, right-hand side).[7]

So, part of the observed difference in relative income levels reflects preferences and institutions rather than low productivity. Shorter working weeks, more generous vacation entitlements and a higher prevalence of part-time employment in Europe are the result of institutional, social and personal choices.

Second, growth in Europe is more inclusive.

Real GDP per capita is an average across regions, individuals and sectors, which means that very high incomes at the top of the distribution can pull the mean upwards.

In the United States, the top 10% of earners today account for around 37% of national income after taxes, a considerable rise since 1980 (Slide 7, left-hand side).[8] In the euro area the share is significantly lower, around 27% on average.

So, in the United States, a large share of income does not accrue to 90% of the population. The typical American lives in a USD 45,000 economy, not a USD 67,000 one.[9]

This difference also reflects that recent income gains are increasingly concentrated in certain sectors and regions.

Since 2000, more than a quarter of total growth in value added per employee in the United States has accrued in the information and communications technology sector – an industry that accounts for less than 2% of total employment (Slide 7, right-hand side).

As the exceptional expansion of large technology companies has been concentrated in a small number of US states, the growth performance of the typical state has been more modest, even as aggregate US GDP per capita has surged.

Indeed, growth in real GDP per capita in the *median* US state and in the *median* euro area country has evolved largely in lockstep (Slide 8). In recent years, growth in the median euro area country has even outpaced that of the median US state.

Standard GDP per capita comparisons thus overstate the disparity in living standards between the United States and the euro area. Europeans work fewer hours, enjoy strong social protection and live in more equal societies.

But to protect these advantages, Europe needs sustained growth. And this growth is threatened by persistently weak productivity growth in the euro area – the third dimension.

Over the past three decades, output per hour worked has risen more slowly than in several peer economies, reflecting less capital deepening, smaller firms and the lack of diffusion of new technologies (Slide 9).[10]

This divergence in productivity growth has led to a gradual widening of GDP per capita gaps over time. As productivity growth is the key driver of sustainable improvements in living standards, closing this gap has rightly become a key policy priority in Europe.[11]

The thriving South: from crisis economies to growth leaders

The benefits of addressing structural headwinds are clearly visible in parts of the currency union.

Take the south of the euro area.

A decade ago, this region was synonymous with crises, austerity and soaring unemployment. Today, those countries are among the fastest-growing economies in Europe (Slide 10, left-hand side).

They have been attracting record levels of investment (Slide 10, right-hand side), unemployment has been declining at an impressive pace (Slide 11, left-hand side) and financing conditions, relative to Germany, are as favourable as they have been since the global financial crisis of 2008, reflecting economic convergence and financial integration (Slide 11, right-hand side).

As a result, these economies have been able to create space to reduce deficits without undermining the recovery, thereby supporting fiscal consolidation and improving debt sustainability (Slide 12, left-hand side).

To a large extent, the current momentum in the southern periphery reflects a sustained improvement in underlying economic capacity. According to the European Commission, potential growth in Spain, Portugal and Greece is projected to be measurably higher than the euro area average in the years to come (Slide 12, right-hand side).

Spain, for example, has emerged as a European leader in renewable energy. This has significantly reduced wholesale electricity prices, transforming the country into a European hub for the energy-intensive industries of the future.[12]

Ireland, meanwhile, has become a global hotspot for technology, pharmaceutical and life science companies. It is one of the most efficient countries in which to do business and it has the highest share of tertiary students in natural sciences, mathematics and statistics fields in the EU.

This transformation is the outcome of political choices and social resilience. These economies had to endure painful adjustments when structural change was unfolding, and the population was willing to embrace these changes.

This is partly also a European success story.

Through instruments such as Next Generation EU, substantial common resources were mobilised to support investment, accelerate reforms and strengthen growth potential in countries that had limited fiscal space to overcome the COVID-19 pandemic.

Stagnating Germany: export-driven business model no longer viable in a fragmenting world

So, the narrative that Europe is underperforming does not hold up in large parts of the currency union.

Today, economic headwinds are felt most acutely in the euro area’s traditional core, albeit for different reasons.

In France, efforts to reduce the fiscal deficit have stalled due to political resistance. Sustained consolidation will depend on striking a careful balance between spending and growth-enhancing policies, a task which will require political compromises.

Some northern European countries have struggled to regain momentum after the pandemic. Austria, for example, was in recession both in 2023 and 2024 and grew only moderately in 2025.

Most attention has, however, focused on Germany, which has been navigating an extended period of subdued growth. From 2019 to 2024, its real GDP per capita *fell* by 1.5%.

The headwinds are numerous. Demographic change is increasingly weighing on potential growth and thus on the sustainability of social security systems (Slide 13, left-hand side). Energy costs remain elevated compared with pre-pandemic levels. And protectionism as well as global competition, especially from China, are hitting Germany particularly hard (Slide 13, right-hand side).

As export growth has softened, Germany's economic weakness is often attributed to a deterioration in competitiveness. While this has played a role, treating eroding export market shares as the main cause of stagnation is a misdiagnosis of the problem.

In fact, Germany's export performance neither dramatically outpaced its peers before the pandemic, nor has it materially lagged behind since (Slide 14, left-hand side).[13] Over the past ten years, Germany's real goods exports have broadly tracked the global cycle.

Germany also did not boast particularly high growth when it ran massive trade surpluses. On average between 1999 and 2019, it grew by just 1.4% annually, less than most other advanced economies (Slide 14, right-hand side).

The key shortfall, therefore, is not a collapse in *external* demand or a unique deterioration in competitiveness.[14]

Rather, it is a sustained weakness in *domestic* demand that makes Germany's economy more prone than others to crises abroad. Especially in a more fragmented world, its export-driven business model is no longer viable.

Since 1999, real private consumption in Germany has grown by less than 1% per year on average, significantly less than in most other advanced economies, as the reforms implemented in the early 2000s intentionally suppressed real wage growth (Slide 15, left-hand side).

These policies reduced the labour share and increased corporate profits and savings, mirrored in the sharp rise in Germany's current account surplus (Slide 15, right-hand side).[15]

As domestic investment remained subdued, these savings were essentially exported, financing growth elsewhere.[16]

If German households and firms had consumed and invested more over the past two decades, the trade surplus would have been lower, but GDP growth would likely have been stronger and more balanced.

Even today, Germany's current account surplus continues to significantly exceed the level suggested by economic fundamentals. Estimates by the European Commission suggest that Germany would be expected to post a current account surplus of about 1.2% of its GDP – a fraction of the current level.[17]

Wise fiscal spending and structural reforms can boost potential growth

Germany is now taking steps to address this macroeconomic imbalance and the decline in potential growth.

Fiscal policy is one key instrument. The fiscal impulse now taking shape is the largest since the Second World War and is a welcome step in the right direction.

Targeted public investment in infrastructure, support for the green and digital transformations and measures that strengthen Germany's defence capacity not only bolster domestic demand, but also enhance the supply side, thereby lifting the German economy out of stagnation.

Higher public spending, if allocated wisely and accompanied by structural reforms, boosts potential growth and crowds in private investment.

This channel is particularly important in Germany, where firms have historically responded to rising energy costs and excessive bureaucracy by expanding production abroad. This is reflected in Germany's outward foreign direct investment position, which has increased strongly in recent years (Slide 16, left-hand side).

In other words, the domestic investment gap is not due to a lack of profitable investment ideas among German companies; it is an allocation choice. Germany's industrial know-how remains formidable, but its capital is highly mobile.

The country's "hidden champions" – specialised firms that dominate global niches – continue to innovate and expand. At the latest count, Germany still hosts nearly half of the world's hidden champions, more than the United States, China and Japan combined (Slide 16, right-hand side).[18]

With an ambitious reform agenda and a courageous investment initiative, Germany can anchor more private capital, innovation and growth within the country.

And given its fiscal position, Germany can afford this response, especially if the measures help reverse the trend decline in potential growth. If they do, the additional spending will strengthen rather than weaken Germany's fiscal sustainability, with positive spillover effects to the rest of Europe.

Europe lacks scale, not ideas: the case for a 28th regime

All in all, these points reinforce the broader message that the picture in Europe should be one of optimism – not because the challenges are small, but because Europe has the capacity and the tools to meet them.

Europe has a vast reservoir of talent, ideas and research. In absolute terms, the EU produces more publications than the United States in every major subject area and is on a par with China (Slide 17).[19] Each year, Europe also generates more early-stage start-ups than the United States.

Europe is not yet "losing" the AI race either. History shows that the bulk of productivity gains from past general-purpose technologies have come not from inventing them, but from adopting them widely across the economy.[20]

Europe has several large sectors – such as manufacturing, energy, healthcare and public services – where AI adoption can deliver major productivity gains.

Indeed, Europe's productivity gap with the United States widened in the early 2000s not because Europe stopped innovating, but because it was slower to adopt information and communications technologies (ICT).[21]

One key reason was that investment in ICT involves high fixed and organisational costs, which US firms – operating in a large, integrated market – were able to spread over a broader customer base.

In the United States, firms with more than 250 employees account for almost 60% of total employment. In many euro area countries, this share is closer to 20%.

In other words, Europe's problem is a lack of scale.[22]

Despite decades of integration, regulatory and administrative barriers still obstruct the free movement of services and goods through the Single Market.

These internal barriers are estimated to be equivalent to tariffs of 96% for services and 67% for goods (Slide 18).[23] Some industries, such as food production and construction, face even greater hurdles.

As a result, in the services sector, which accounts for some 75% of total gross value added, intra-EU trade is no higher than trade with non-EU countries.

Many proposals on how to reduce these internal barriers are already on the table, ranging from deeper capital markets integration to a common European energy, defence and digital infrastructure.[24]

The most powerful idea is the creation of a 28th regime: a unified European corporate framework open to firms of all sizes and sectors.

For decades, the Single Market has been built primarily through harmonisation across the 27 national systems. In many areas, this approach has worked well. But in others, it has reached its limits, as we have seen with the proliferation of national gold-plating in the transposition of EU directives.

In particular, business founders today still need to navigate a complex patchwork of legal systems, corporate codes and regulatory regimes. This fragmentation acts like an internal tariff wall, making it costly and difficult to expand across borders, especially into smaller countries. Thereby it discourages growth and ultimately slows innovation.

The result is that too many European firms remain too small, while start-ups often choose to become American companies the moment they start to grow. A striking number incorporate not under European law but as Delaware corporations, often well before they have any meaningful presence in the United States. As a result, many unicorn companies in the United States have European founders.

This is no accident. Incorporating a company in Delaware takes just a few days, or even hours, and comes with very low costs. The legal framework is standardised, predictable and immediately understandable to global investors.

By contrast, scaling across Europe still requires legal reinvention country by country with costly notary procedures and fragmented firm registries.

Moreover, while funding in Europe is relatively abundant at the founding stage, it is much more difficult to obtain in the growth and exit phases. Initial public offerings often yield unattractive pricing due to the lack of a liquid market, which encourages new European companies to look for funding elsewhere.

The consequence is that, while Europe excels at generating ideas and building start-ups, it struggles to keep them in Europe as they grow.

How a 28th regime can help boost innovation and productivity

A 28th regime can change that.[25]

The concept is simple: under a 28th regime, a company could choose to incorporate as a genuinely European firm, which European Commission President Ursula von der Leyen recently referred to as "EU Inc.".[26]

That company would operate under a unified set of rules for core elements of company law, governance, shareholder rights and employee financial compensation.

The incorporation process would be quick, cheap and fully digital. Participation would be voluntary, and the regime would be open to companies of all sizes, in all sectors.

That openness matters.

It is neither possible nor desirable to predict which technologies, firms or industries will drive Europe's growth in the future. And it would be counterproductive to limit the regime to young firms, as its very purpose is to enable firms to grow and succeed.

By offering firms a truly European corporate framework, the regime would lower barriers to cross-border activity, make it easier to raise capital and attract talent, and allow innovative companies to scale more quickly across the Union.

To achieve this, the legal implementation is critical.

Ideally, the 28th regime should be established through an EU regulation that is directly applicable across all member states. Otherwise, Europe risks ending up with 27 versions of the 28th regime, recreating the very fragmentation it seeks to eliminate.[27]

A 28th regime would complement national systems, not replace them. It is not an attempt to harmonise labour markets or social security systems – these would remain in national hands.

Nor is the 28th regime a backdoor to tax harmonisation: corporate tax rates, tax bases and other aspects of fiscal policy would continue to be determined by Member States.[28]

Its purpose is narrower in focus: to remove unnecessary legal fragmentation and uncertainty for firms that wish to expand across borders, and to make European companies as attractive to global venture capital, private equity and institutional investors as Delaware corporations are today.

The 28th regime would thus help ensure that the next generation of European companies remains European, not just in terms of where ideas are created, but also where value is built.

This would help boost innovation and, ultimately, productivity growth, which has long been Europe's Achilles heel. Reigniting it is essential for sustaining prosperity in an ageing society and a fragmenting world.

Conclusion

I want to conclude with a simple point: Europe is a continent with huge potential.

Despite the challenges we face, it remains one of the most prosperous, innovative and socially cohesive regions in the world. Europe leads the way in quality of life, excels in scientific output and sets global standards in environmental protection.

Europeans are bound together not only by treaties and regulations, but by shared values: multilateral cooperation and respect for democratic institutions and the rule of law.

In a world increasingly drifting towards autocracy, Europe's institutional integrity is a significant asset. It makes Europe one of the most attractive places in the world to live, work and invest, offering stability, predictability and opportunity to people and businesses from across the globe.

Europe's central challenge is not a lack of ideas or talent. It is a lack of scale. And Europe has the power to change that itself.

The 28th regime offers a concrete and powerful way to address this problem – a framework that allows innovation to thrive, firms to scale and productivity to rise.

By helping to build a truly frictionless Single Market, it can establish a "Made in Europe" brand for companies that stands for innovation, excellence and legal certainty. And that is the narrative that Europe needs to reclaim.

Thank you.

Annexes

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Made in Europe - Presentation slides

1.

Europe has long attached particular value to equality of opportunity. Lower tuition costs and widespread public funding, for example, mean that educational attainment depends less on family income. This reduces the extent to which early circumstances determine later outcomes and makes social mobility more achievable.

2.

Machado, S. et al. (2025), "Association between Wealth and Mortality in the United States and Europe", *The New England Journal of Medicine*, Vol. 392, No 13, pp. 1310-1319.

3.

While GDP per capita remains an important metric for living standards, in today's global economy the total size of the market, and thus real GDP, is relevant when assessing bargaining power vis-à-vis global players, meaning demographics play a decisive role too.

4.

For a similar assessment, see Darvas, Z. (2023), "The European Union's remarkable growth performance relative to the United States", Bruegel, 29 October.

5.

This assumes a representative eight-hour working day. In 2024, the difference in annual hours worked per employee between the United States and the euro area was 315 hours.

6.

Currently, a moderately larger share of the population (15 to 74 years) in the United States is counted as part of the labour force compared with the euro area. In the United States, the labour force participation rate stood at 68% in December 2025, while in the euro area it was 66% in the third quarter of 2025.

7.

The gap closes still further when considering gross national income instead of GDP, as the euro area earns significant income on its assets held abroad.

8.

World Inequality Database and Piketty, T., Saez, E. and Zucman, G. (2018), "Distributional National Accounts: Methods and Estimates for the United States", *The Quarterly Journal of Economics*, Vol. 133, No 2, pp. 553-609.

9.

These are 2024 figures for the real median and mean personal income in the United States.

10.

Schnabel, I. (2024), "From laggard to leader? Closing the euro area's technology gap", inaugural lecture of the EMU Lab at the European University Institute, Florence, 16 February.

11.

Draghi, M. (2024), *The Future of European Competitiveness: A Competitiveness Strategy for Europe*, Luxembourg: Publications Office of the European Union, September.

12.

Many European and global cloud providers operate data centres and cloud infrastructure in Spain. The country is also attracting major investments in electric vehicle battery manufacturing.

13.

See also Sandbu, M. (2025), "Germany's problems are worse than you think", *Financial Times*, 20 November.

14.

The International Monetary Fund (IMF) links a significant part of China's gain in competitiveness to the large undervaluation of the Chinese renminbi. See IMF (2025), *External Sector Report*, July.

15.

Klug, T., Mayer, E. and Schuler, T. (2021), "The corporate saving glut and the current account in Germany", *Working Paper Series*, No 2586, ECB, Frankfurt am Main, August; and Wolff, G. (2018), "Germany's current account surplus and corporate investment", Bruegel, *blog post*, 9 May.

16.

This is essentially the same phenomenon that we are currently seeing in China, except that the factors underlying weak domestic demand may differ. In China, the collapse of the real estate sector is a major factor contributing to the weakness in demand.

17.

European Commission (2025), "In-Depth Review 2025: Germany", *Institutional Papers*, No 307, May.

18.

Institut der deutschen Wirtschaft (2022), "Hidden Champions: Die Starken aus der zweiten Reihe", September.

19.

Elsevier (2025), "EU as a science innovator: Powered by the European Research Area", October.

20.

Aldasoro et al. (2026), "AI Adoption, Productivity and Employment: Evidence from European Firms", *CEPR Discussion Paper*, No 21082, January; and Comin, D. and Hobijn, B. (2010), "An Exploration of Technology Diffusion", *American Economic Review*, Vol. 100, No 5, pp. 2031–59.

21.

Schnabel, I. (2024), op. cit.

22.

See also Schnabel, I. (2024), “Escaping stagnation: towards a stronger euro area”, speech at a lecture in memory of Walter Eucken, Freiburg, 2 October.

23.

While these estimates should be seen as upper bounds on existing barriers, they point to substantial untapped potential in the Single Market. See also Lagarde, C. (2025), “From resilience to strength: unleashing Europe’s domestic market”, speech at the 35th Frankfurt European Banking Congress, Frankfurt am Main, 21 November; Bernasconi, R., Cordemans, N., Gunnella, V., Pongetti, G. and Quaglietti, L. (2025), “What is the untapped potential of the EU Single Market?”, *Economic Bulletin*, Issue 8, ECB; and International Monetary Fund (2024), “Europe’s Choice: Policies for Growth and Resilience”, *IMF news article*, 16 December.

24.

Draghi, M (2024), op. cit.

25.

See also Letta, E. (2024), *Much more than a market: speed, security, solidarity*, April.

26.

Von der Leyen, U. (2026), *Special Address at the World Economic Forum*, Davos, 20 January; and EU-Inc.org (2025), *EU-Inc Policy Proposal: An industry blueprint for the upcoming 28th regime*, January.

27.

A regulation automatically becomes part of national law without the need for transposition. An alternative could be a maximum harmonisation directive, which instead fixes the full rulebook so that no deviations in transposition are allowed.

28.

Over time, if politically desirable, the regime could be extended along several dimensions. Research shows, for example, that investment in disruptive and high-risk technologies is highly sensitive to the cost of failure, not only to the expected return. A targeted easing of lay-off rules for top earners may therefore be desirable, as tech start-ups often employ highly qualified and highly paid employees. See Coatanlem, Y. and Coste, O. (2024), “Cost of Failure and Competitiveness in Disruptive Innovation”, *IEP@BU Policy Briefs Series*, No 25, Bocconi University.