Why is Europe falling behind the US economy?

Mostly scale and capital. The US–EU output gap grew from 17 % to about 30 % since 2002 – most of it productivity, not hours.

Half the answers to this question are declinist panic and the other half are denial. The data supports neither. Here is what is real, what flatters America, and what is being done.

The numbers that are real

The European Union and the United States produced roughly the same output at the start of the century. Then they diverged, slowly and without pause, to a gap of around thirty percent – the opening fact of Mario Draghi's 2024 report to the European Commission. About a third of that is demographics and hours; the uncomfortable two-thirds is productivity – what an hour of work produces – driven by a technology sector Europe largely does not have.

Behind the productivity number sit two structural ones. Capital: European venture investment ran about €66 billion in 2025, roughly a fifth of American levels, and European savings sit in bank deposits while American pensions buy equity. And fragmentation: the IMF has estimated that the EU's remaining internal barriers act like a tariff of roughly 44 % on goods and 110 % on services. Europe built one market for cars and cheese, never for services, energy or capital – which is to say, for the things this century is made of.

The numbers that flatter America

An honest scoreboard shows the other column too. Americans die about four years earlier on average, pay double for healthcare with worse coverage, take half the vacation and carry inequality Europe would not tolerate. Much of Europe's "missing" GDP is purchased time off and social insurance – a choice, not a failure. GDP per head is not a happiness index.

But it is not nothing, either. Output is what buys the technologies, the energy systems and, these days, the weapons. A continent that is four percent of the world's population and falling behind in capacity does not get to keep its comfortable choices forever. That is the sense in which the gap matters even if you would not trade Vienna for Houston.

What is actually being done

The Draghi report put roughly 170 fixes on the table – a real capital markets union, one energy market, joint innovation funding – priced at about €800 billion a year of additional investment. A year later, independent trackers found only about a tenth of it moving; the Savings and Investments Union package of December 2025 is the largest concrete step so far. The diagnosis is consensus. The treatment is slow, because every fix requires member states to give up a small veto or a national champion.

The pattern under the answer

Notice the shape of every credible remedy: deeper capital markets, a single energy grid, scale for firms, joint funding. Nobody's serious plan for closing the gap says "less integration." The economics has been settled for a decade; what Europe is actually debating, budget line by budget line, is how much unity it will accept in exchange for catching up.

All questions →

FREQUENTLY ASKED

How big is the gap between the US and EU economies?
Measured at constant prices, the gap in output grew from about 17 % in 2002 to around 30 % by 2023 – the starting fact of the Draghi report. Per person and adjusted for purchasing power it is smaller, but still widening.

Is it because Europeans work less?
Partly, and partly by choice – longer vacations, shorter hours. But roughly two-thirds of the gap is productivity: output per hour. That part is not leisure; it is lost capacity.

Where does Europe actually do better?
Life expectancy, healthcare coverage, inequality, poverty among the old, workplace protections, and cities you can walk in. GDP per capita is not a welfare index – but it does buy security and technology.

What did the Draghi report recommend?
About 170 proposals: a genuine capital market, completing the single market in services and energy, joint funding of innovation and defense – roughly €800 billion a year in extra investment. A year on, around a tenth was moving.

Can the gap close?
Arithmetic says yes: Europe has the savings, the science and the market size. Every credible fix runs through more integration – deeper capital markets, one energy grid, scale for firms – which is politics, not economics.

SOURCES

- Draghi report on EU competitiveness (2024): 17 %→30 % output gap, ~€800bn/yr investment need
- IMF: EU internal barriers equivalent to ~44 % tariff on goods, ~110 % on services
- Invest Europe / PitchBook: European VC ≈ €66bn in 2025, roughly a fifth of US levels
- EU Savings and Investments Union package (December 2025)
- OECD productivity and hours-worked data