



University of St.Gallen

Institute for Law and Economics

Keynote – Macroeconomic Outlook

Europe at a Crossroad

Nordic Restructuring Conference

Stockholm

May 19, 2026

Stefan Legge

Schedule

Global Perspective

- Return of China
- Return of Geopolitics & Big Government

Europe falling behind?

- Macroeconomic Evidence
- Corporate Museums vs New Stars

Path Forward

- Reforms and Possibilities

Discussion, Q&A



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Global Perspective

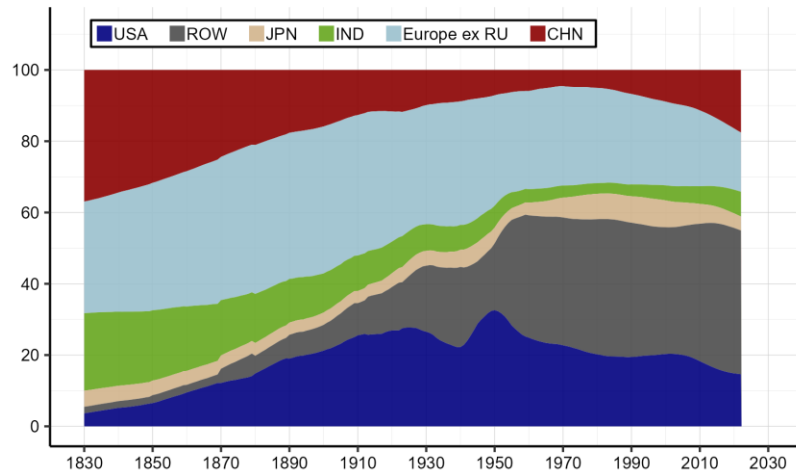
Return of China,
Geopolitics, and Big Government

In case you missed it, China is back.

- China's share of the global economy is surging – and it is longer the cheap workbench of the world:

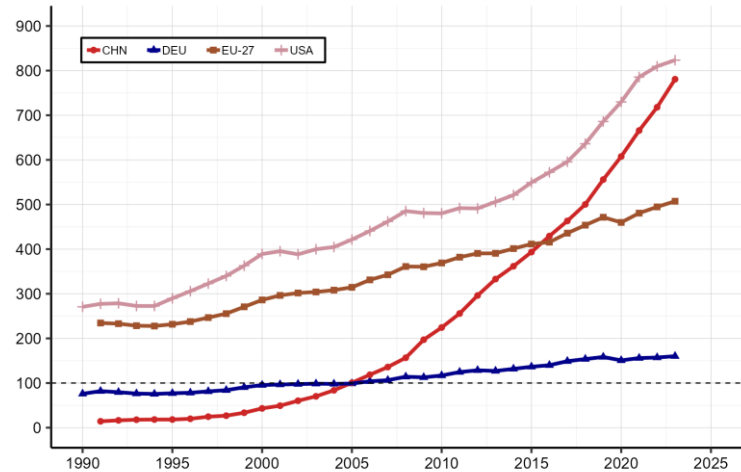
China comeback, European retreat

Share of global economy (in %)



Note: GDP in PPP terms, shares as 10-year rolling average.
Data source: Maddison Project Database 2023

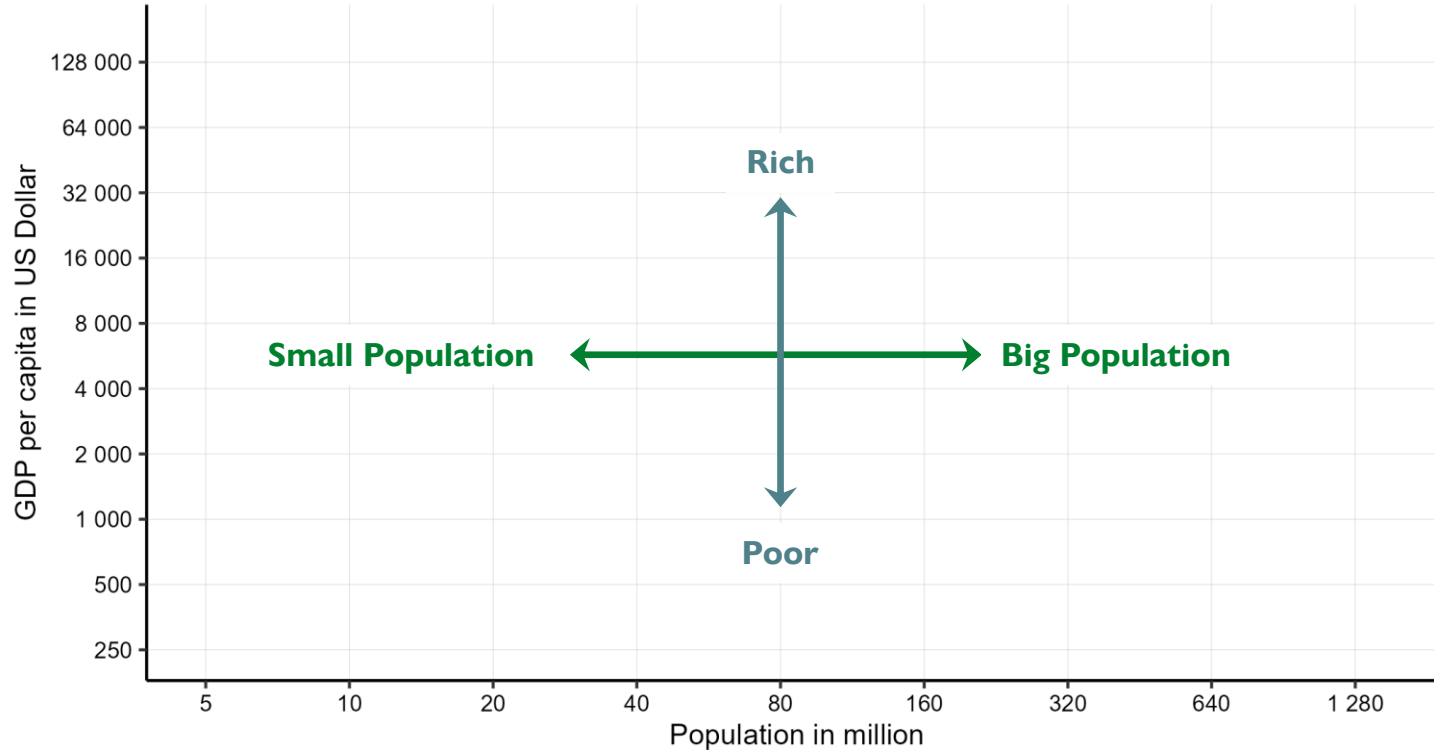
Expenditure on R&D (USD, PPP-covered)



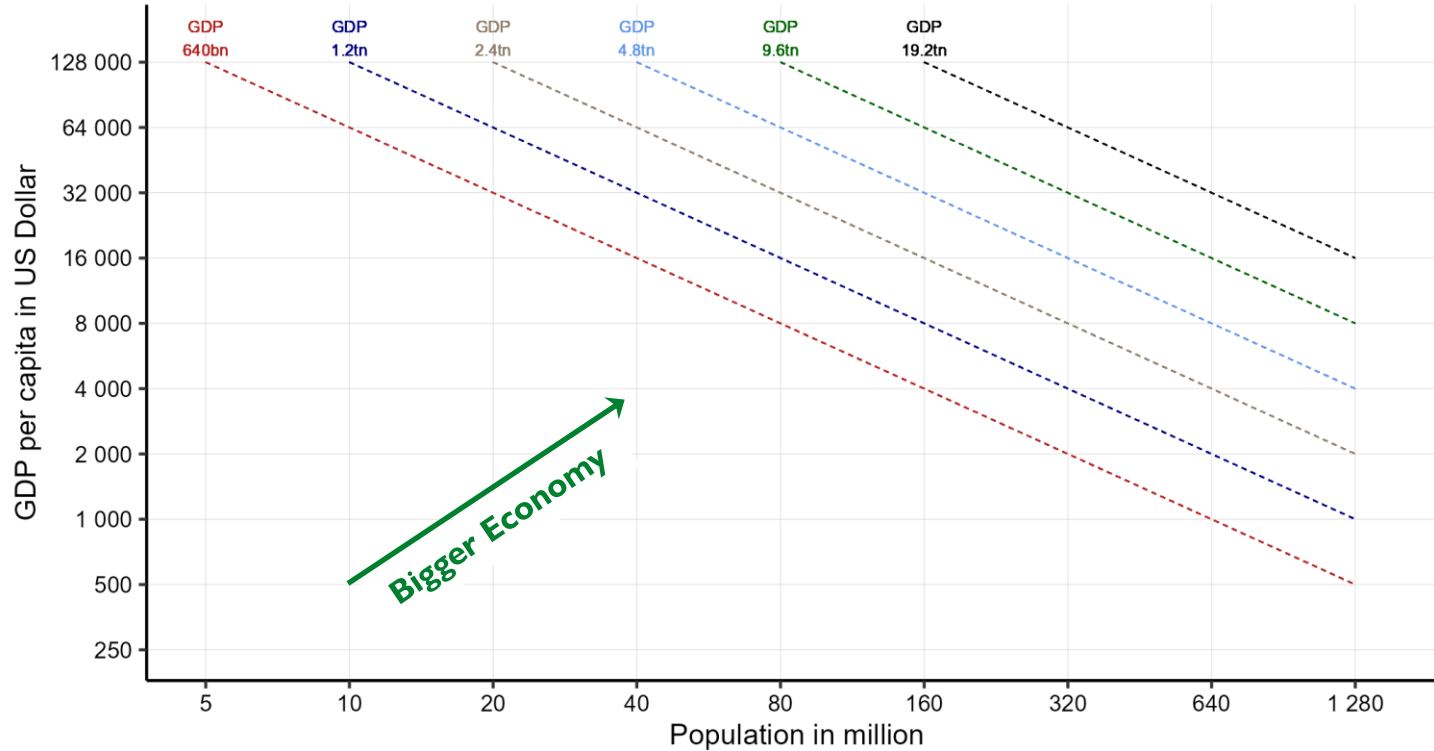
Data: OECD

- China's development changes the world. Not everyone is thrilled about it.

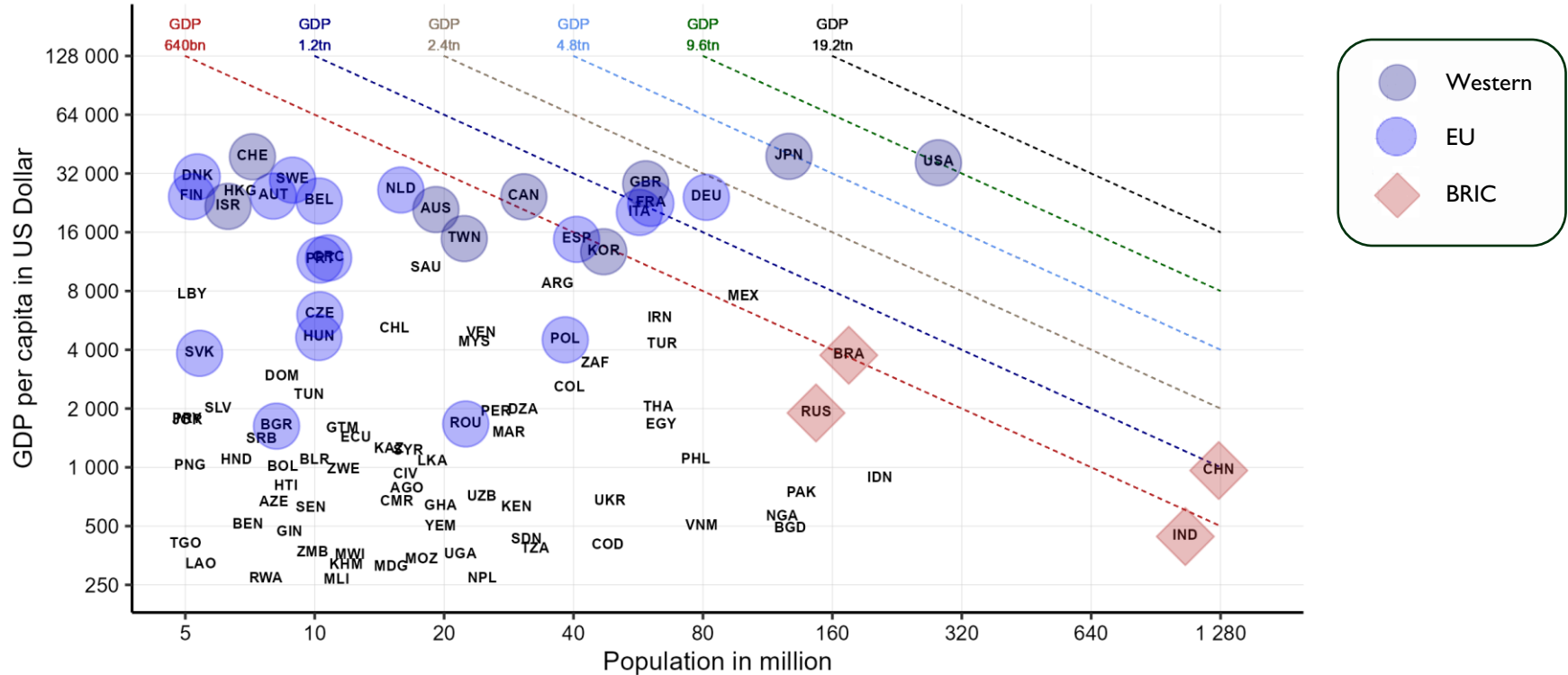
Let us look at the world in the year 2000



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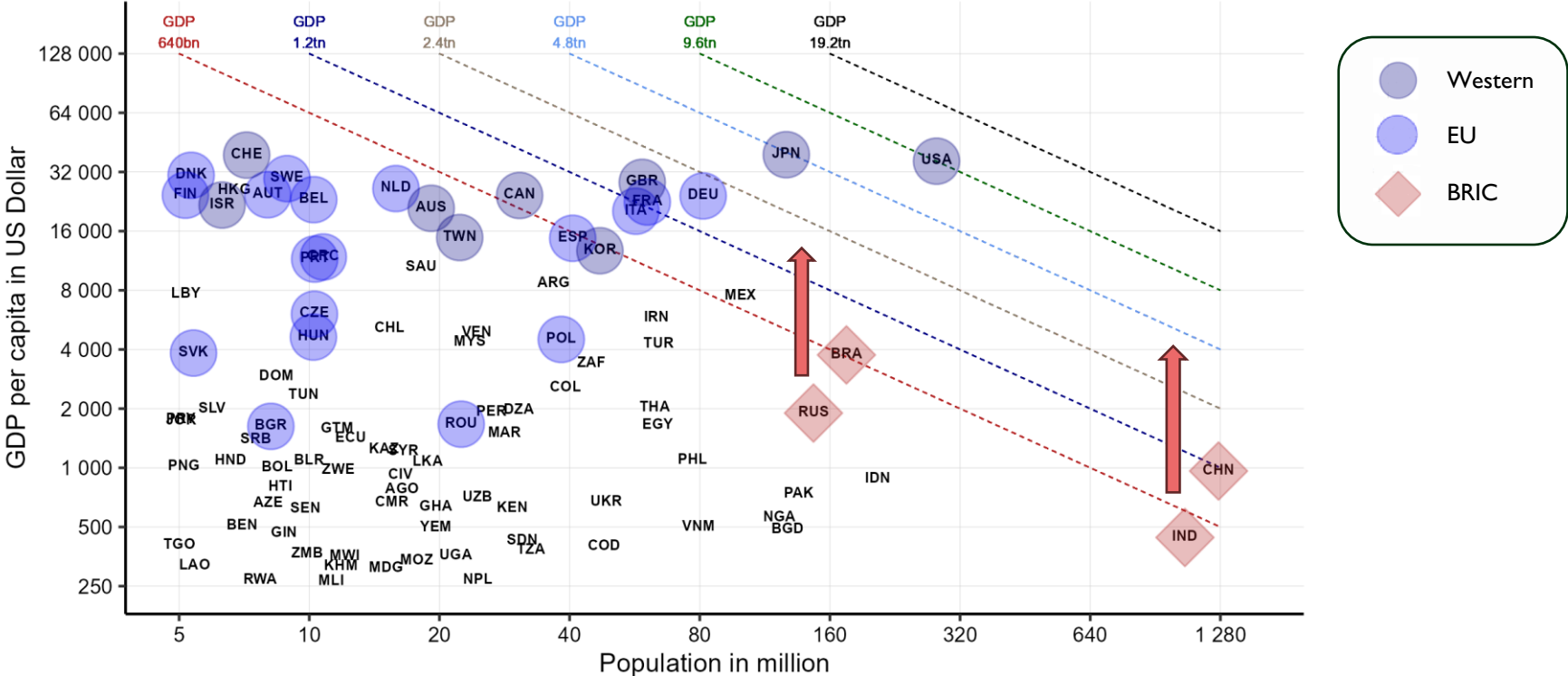


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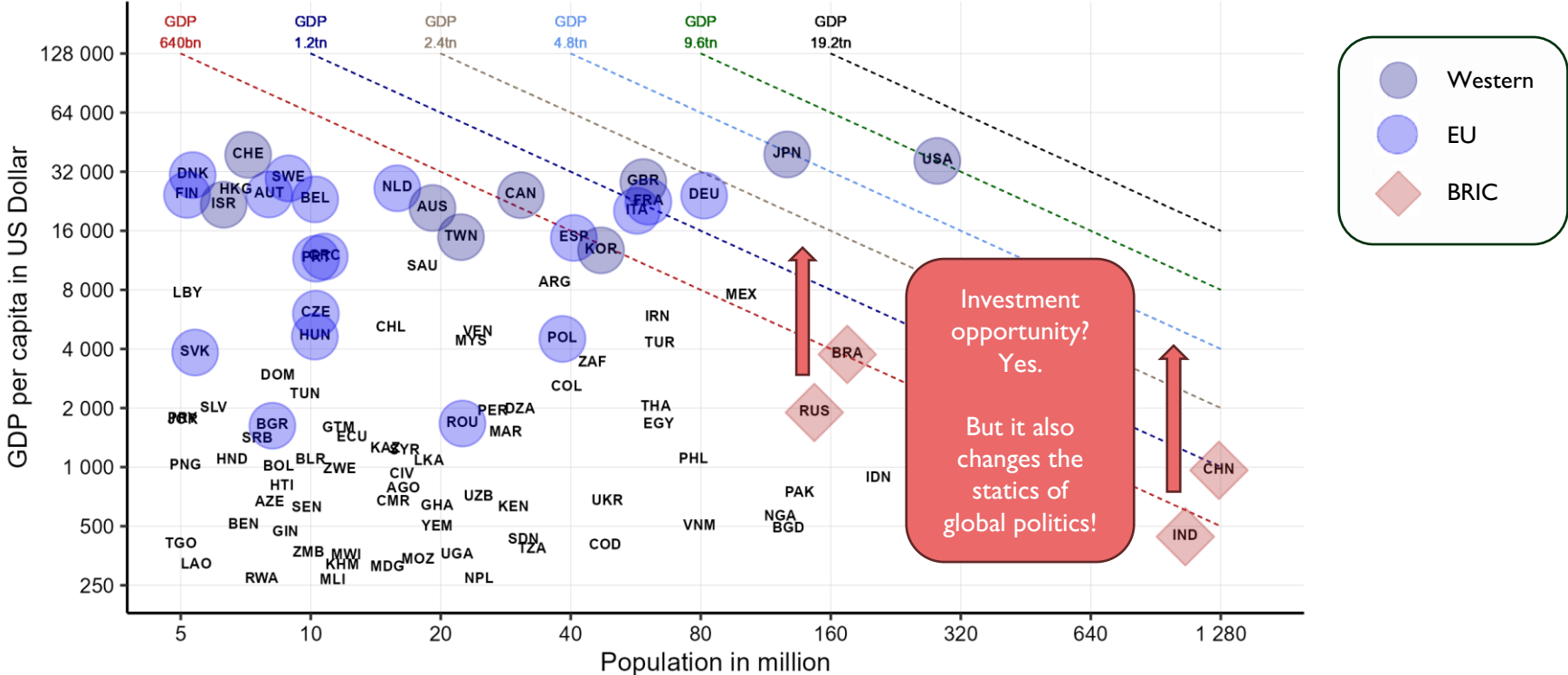
Note: Data for year 2000. Only nations with 5m+ population and \$250+ GDP per capita. Data from IMF WEO April 2025

What if the populous BRIC nations increase their GDP per capita?

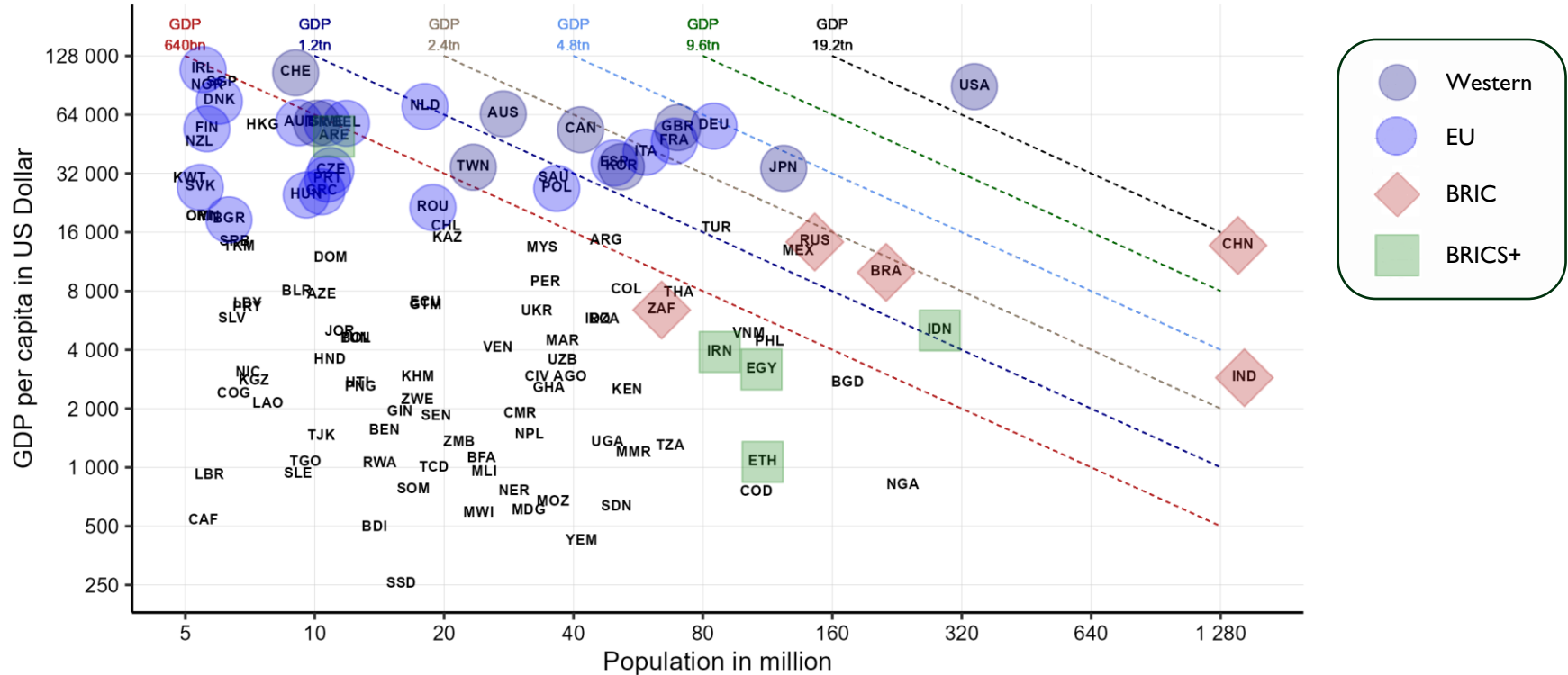


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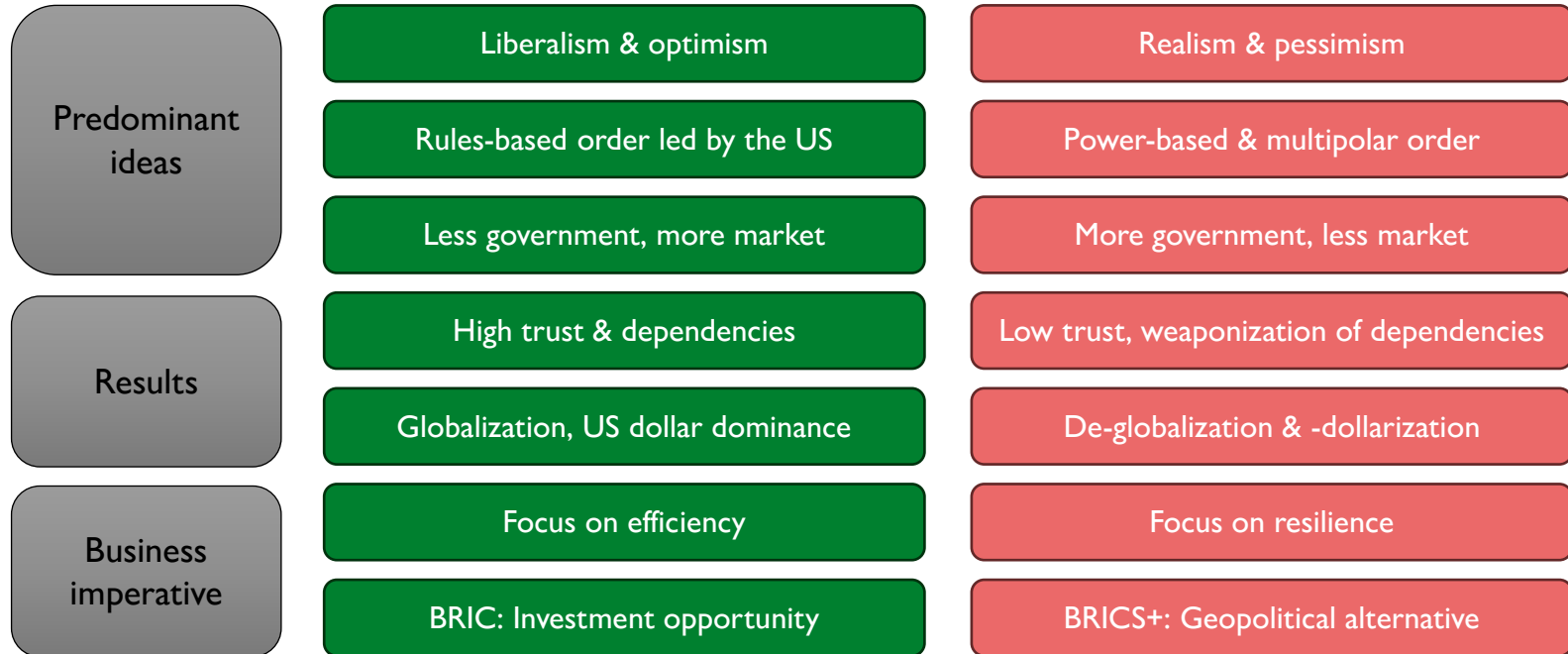
Now let us look at the world in the year 2025



Note: Data for year 2025. Only nations with 5m+ population and \$250+ GDP per capita. Data from IMF WEO April 2025

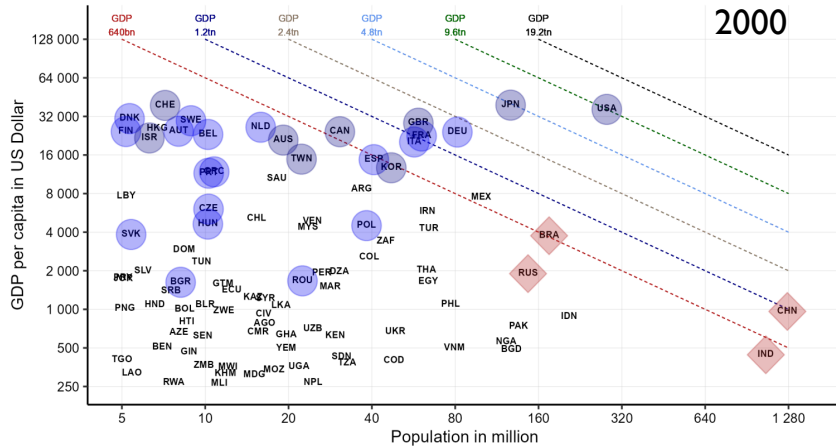
The world 25 years ago – and today

- There are long cycles of predominant ideas. We are now at an *interregnum*, hence the heightened uncertainty.

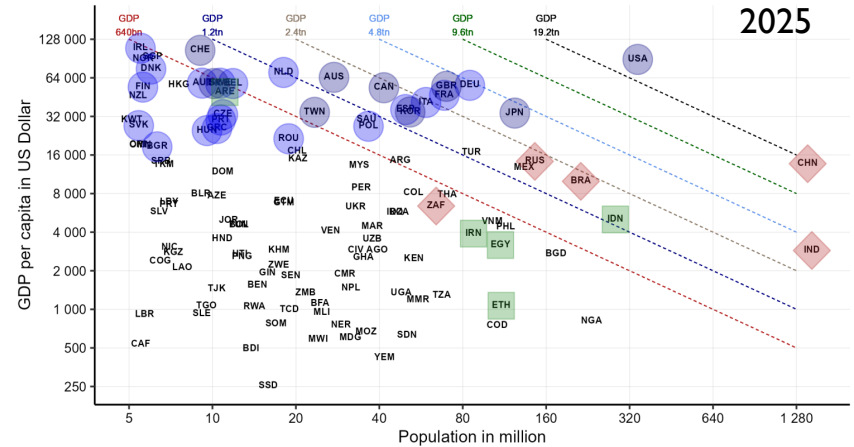


In 25 years, the world went from BRIC to BRICS+.

- The world has changed a lot in just a quarter century:



Note: Data for year 2000. Only nations with 5m+ population and \$250+ GDP per capita. Data from IMF WEO April 2025



Note: Data for year 2025. Only nations with 5m+ population and \$250+ GDP per capita. Data from IMF WEO April 2025

- China now spends more on R&D than the US, and 70% more than the EU ([WSJ](#), May 10, 2026). It leads in 69 out of 74 technologies ([ASPI](#), March 25, 2026).

Consequences of China's return as innovative superpower

Not only, but mainly as a result of China's development, we observe:

1. **Return of geopolitics**

Thucydides' trap: US hegemony threatened, aggressive American policies

Kindleberger trap: US no longer able/willing to provide global public goods

2. **Return of big government**

Rising military spending and industrial policies add to welfare-induced public spending spree.

Bond markets are loath to finance governments' excessive borrowing – monetization of debt about to come.

3. **European economic malaise**

China turned from customer to competitor.

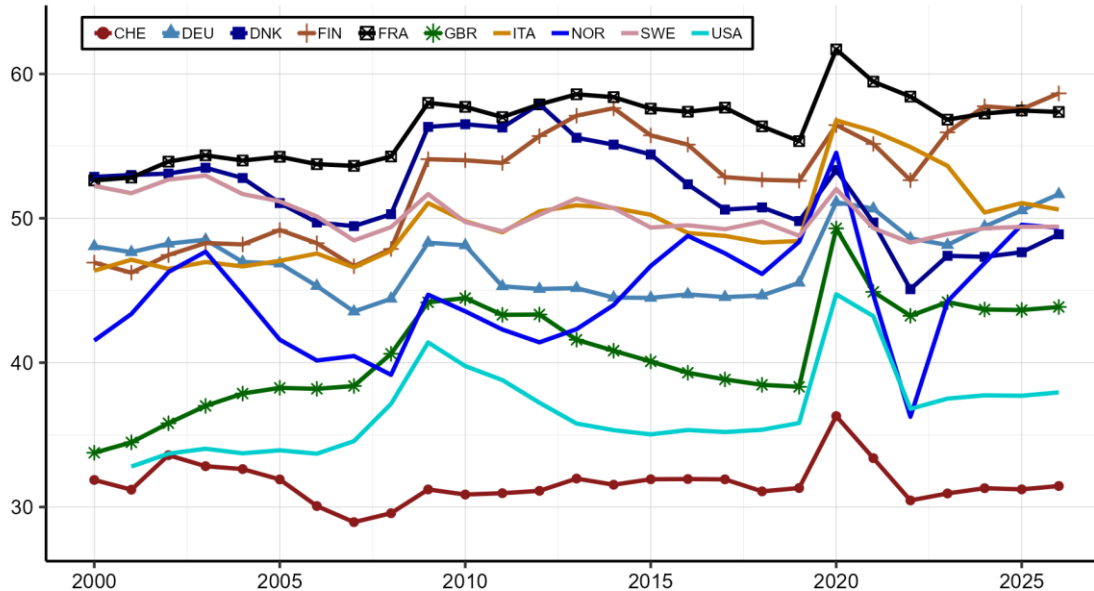
Currently, Germany suffers the most – but others will see the impact, too.

Big G is back.

- The world is facing a return of big government. Public spending as a share of GDP is often about 50 percent:

Government expenditure (in % of GDP)

Selected countries since 2000



Data: IMF WEO Apr 2026

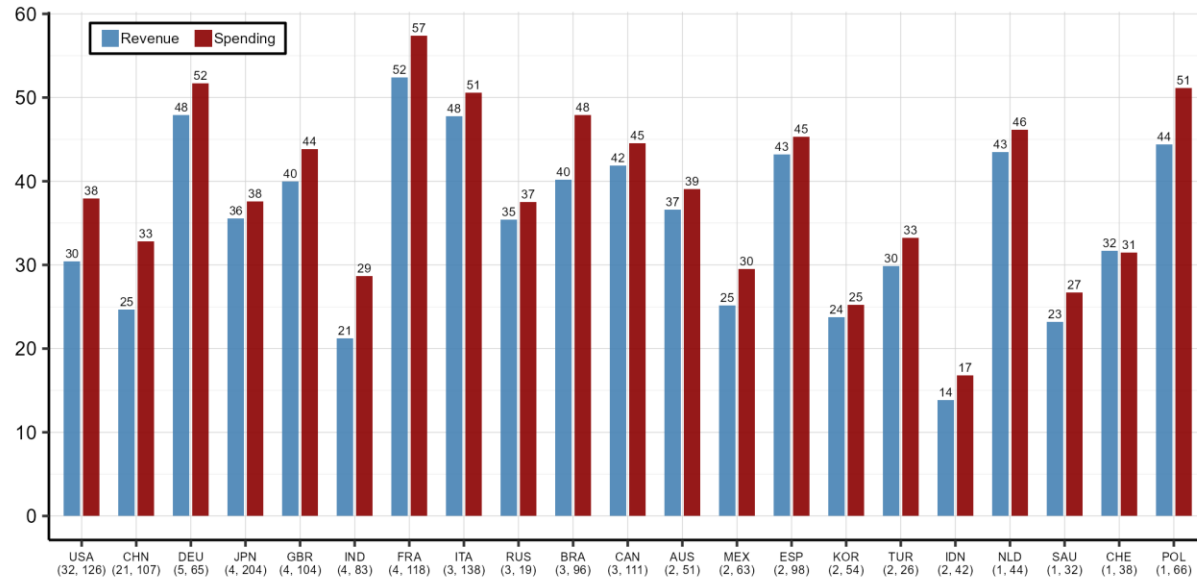
It is fair to say that most spending in Western economies today is done directly by governments or heavily influenced by them.

Big G is back – but people hate paying for it.

- Large deficits in the US, China, India, France, Brazil, etc. – when will the chickens come home to roost?

Government Revenue and Spending (in % of GDP)

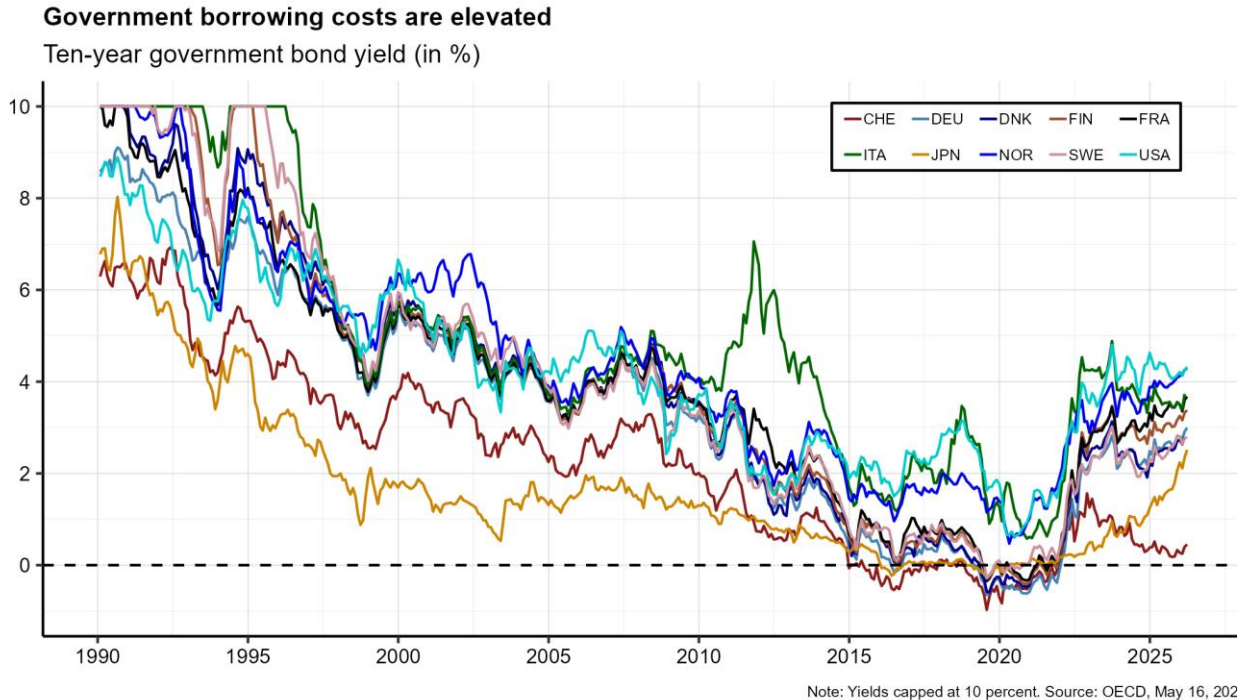
The world's \$1 trillion economies, sorted by size



All data for 2026. Numbers in parentheses show GDP in trillion USD and public debt in % of GDP. Data from IMF WEO April 2026

Public Finances: The era of cheap money is over.

- Except for Switzerland, governments now borrow at rates much higher than before 2022:



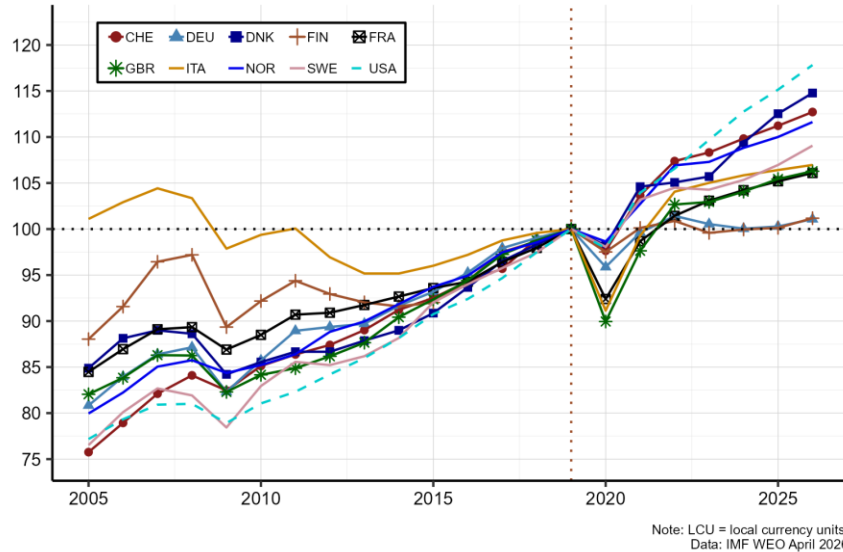
Europe falling behind?

Macroeconomic Evidence

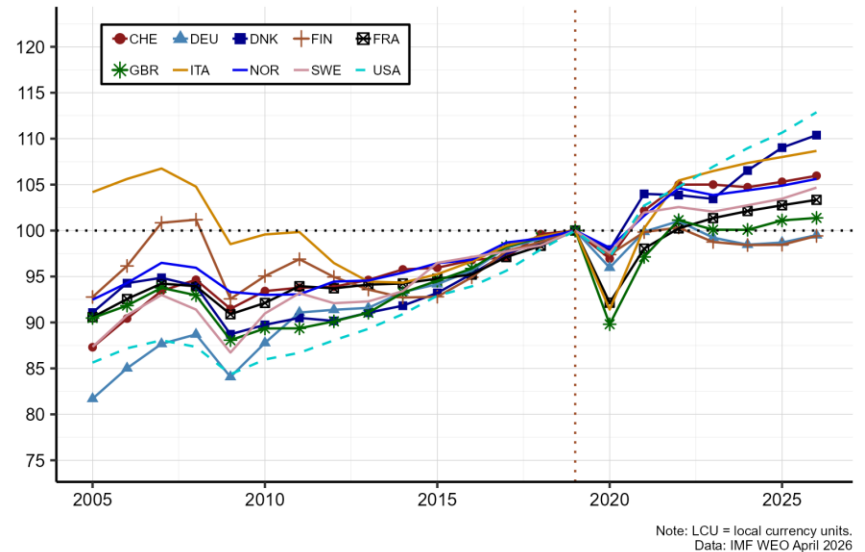
Europe is falling behind the US – in economic terms.

- Both GDP and GDP per capita – in price-adjusted terms – grew less in Europe than in the US:

European nations on different paths
GDP in constant LCU (2019 = 100)

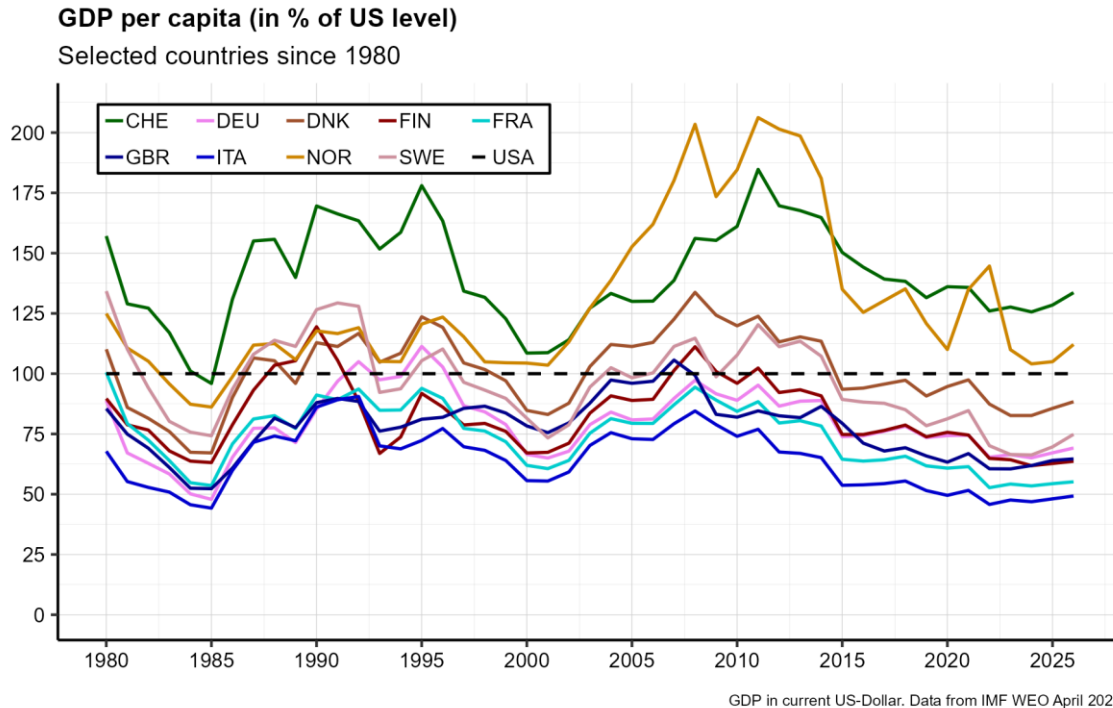


European nations on different paths
GDP per capita in constant LCU (2019 = 100)



Few European nations are still richer than the US.

- In terms of GDP per capita in current US dollars, only a handful (small) European nations can keep pace:

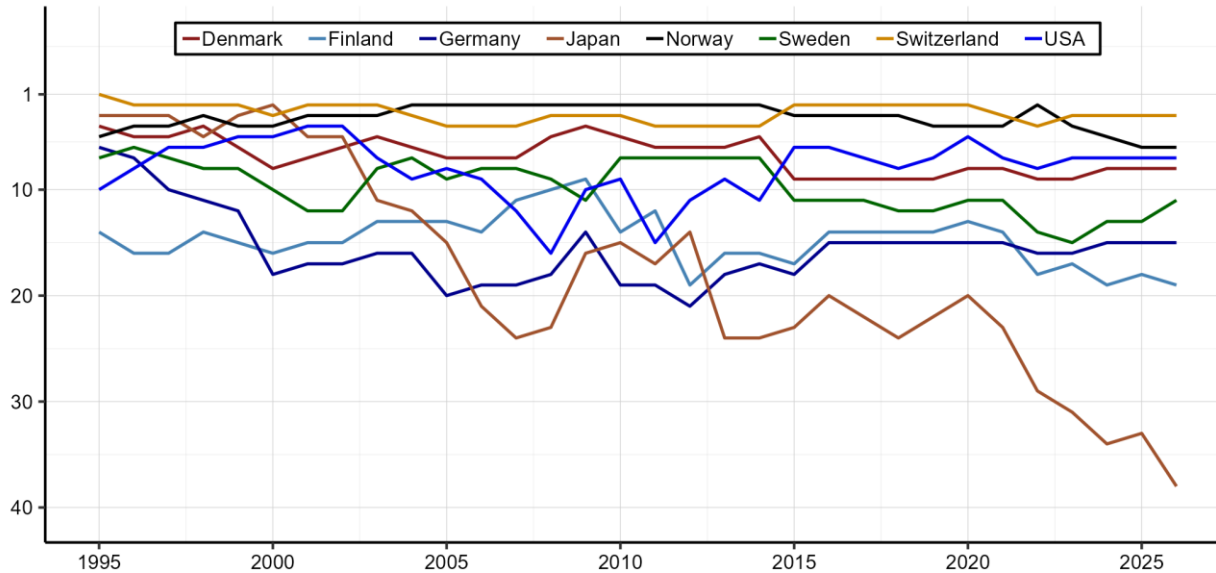


Many European nations (still) do very well.

- Ranking all nations by GDP per capita, we find all Nordics in the top-20:

Several European nations remain among the most successful countries

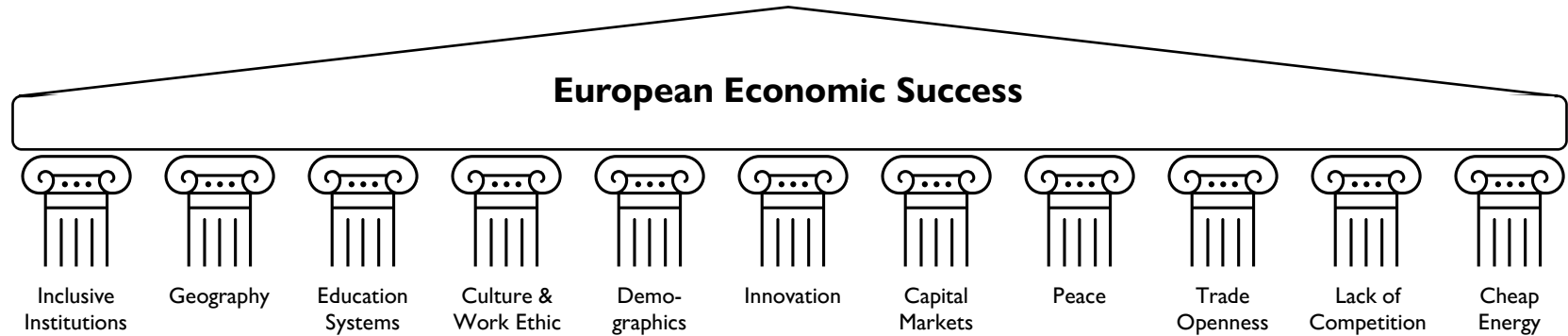
Global GDP per capita rank



GDP in current US-Dollar. Data from IMF WEO April 2026

Is Europe running out of steam?

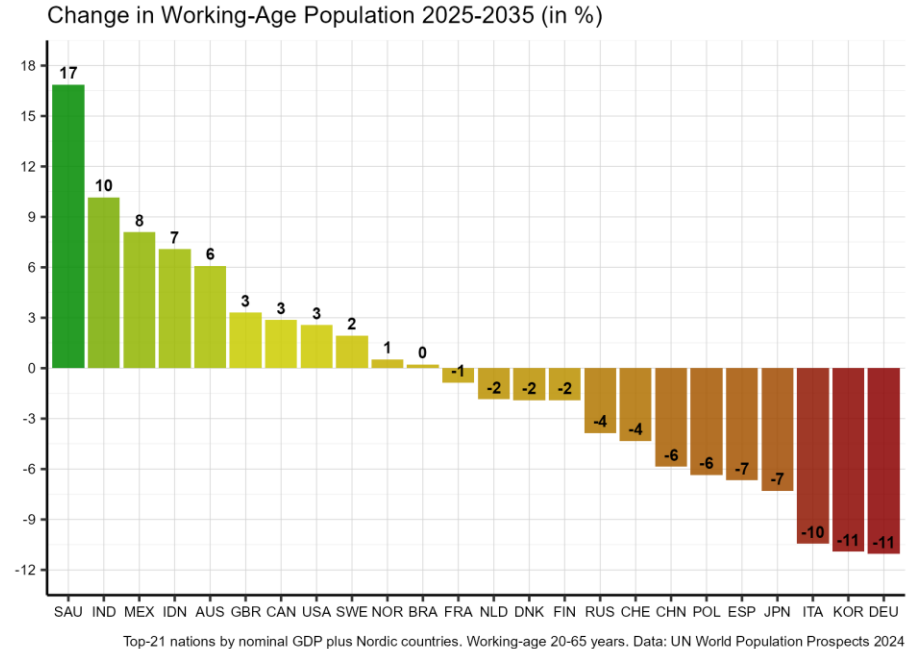
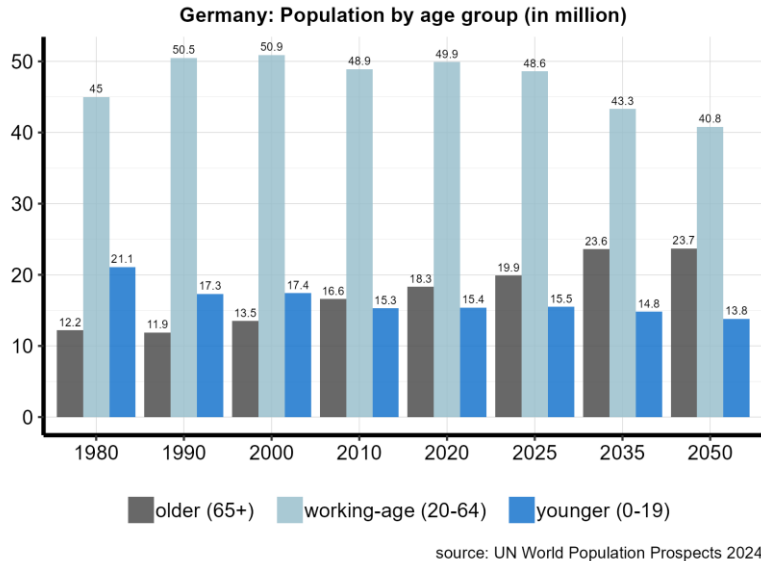
- European nations still account for eight of the top-10 nations by GDP per capita, 14 of the top-20 (IMF). But their prosperity is built on foundations, some of which are crumbling:



- The Old Continent is getting old. It is the only one with a shrinking workforce. The peace dividend, the lack of competition, the trade openness – all are under stress. Domestically we observe dysfunctional political systems, deteriorating work ethic and education results. Finally, the much-touted green growth is a mirage.

Dim European economic outlook due to demographics.

- Germany's working-age population is set to shrink 11% in ten years. Others face big problems, too:

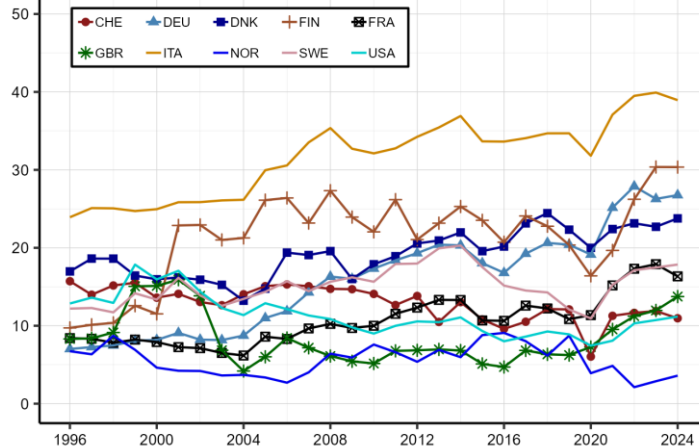


Facing tough competition from China.

- China is no longer the cheap work bench of the world. It now competes head-on with Europeans.

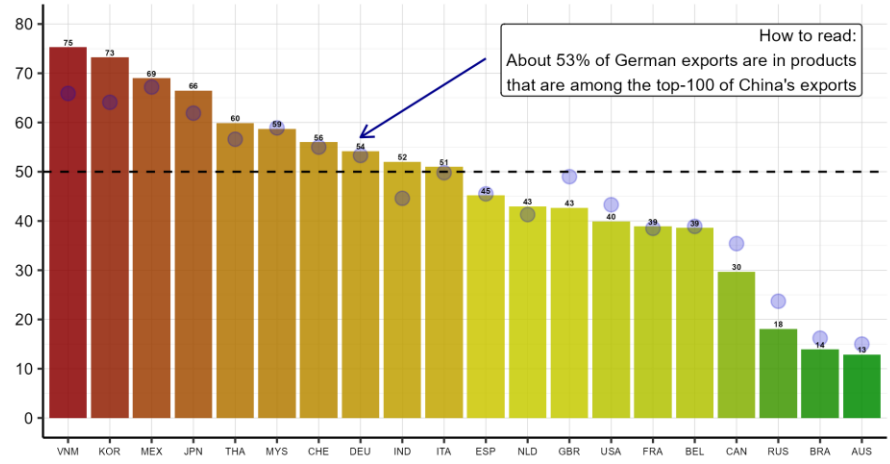
Who's really competing with China?

Share of goods exports in 2024 of products for which both the country and China have a revealed comparative advantage (in %)



Notes: Products are HS 4-digit codes. Gold (HS-7108) excluded. Data: BACI

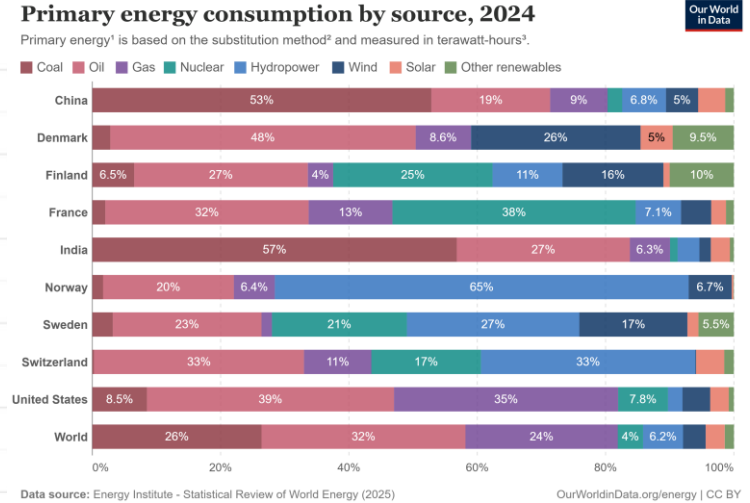
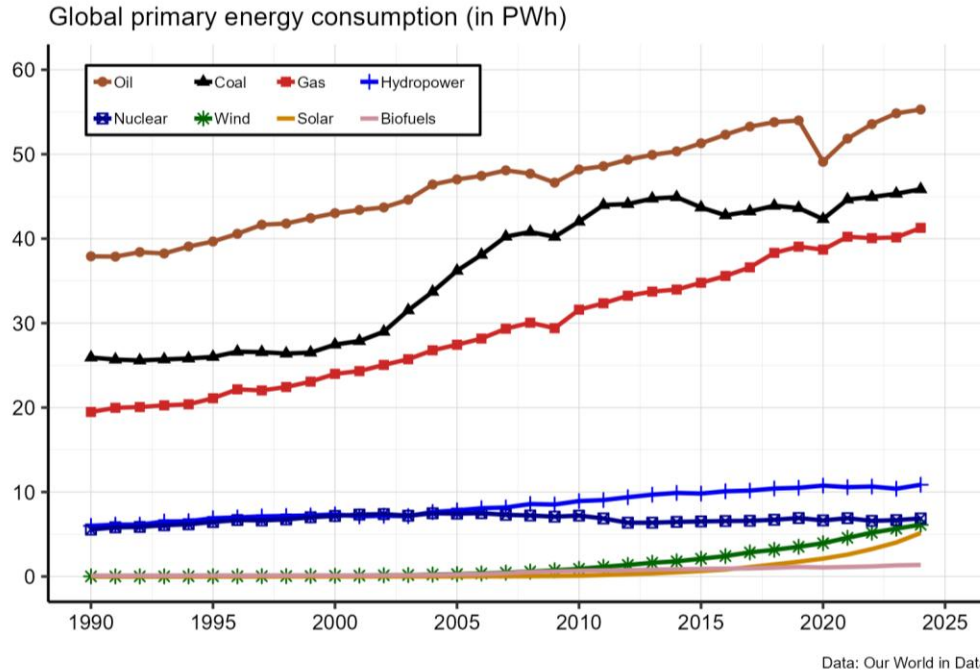
Share of Exports in 2024 of Products that are among Top-100 Chinese Export Goods (in %) Dots for 2015 values



Notes: Products are HS 4-digit. Gold (HS-7108) excluded. Top-20 nations by 2024 exports shown. Data: BACI

The world runs on fossil fuels and isn't moving away from them.

- The world burns more oil, coal, and gas than ever before. Wind & solar play a small (albeit growing) role.



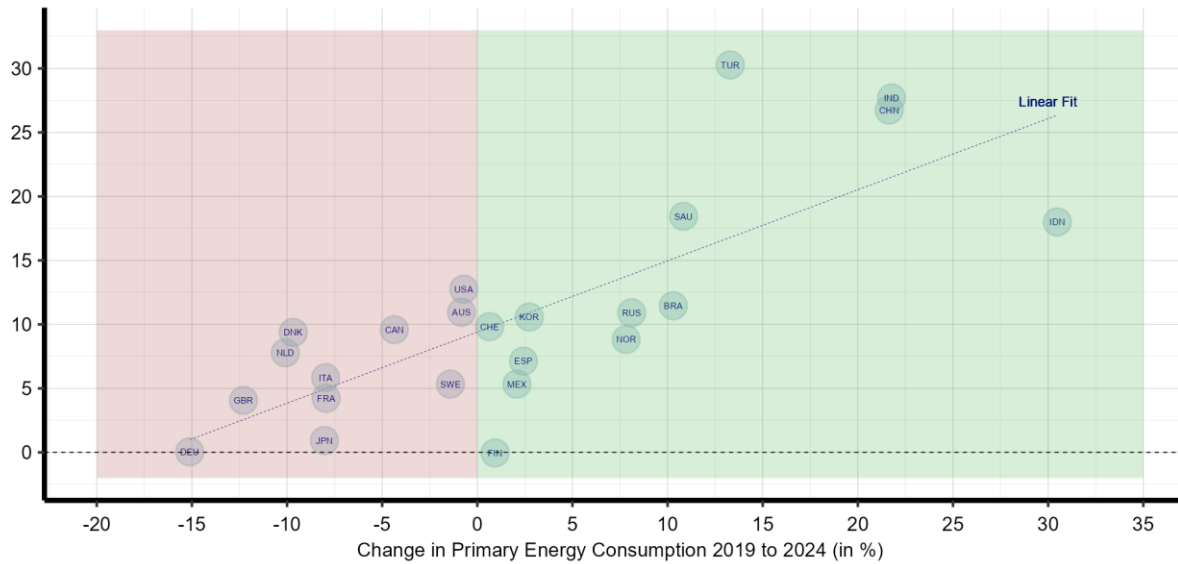
What people wish is what they believe.
Charlie Munger

More energy, more economic growth.

- Despite some evidence of decoupling ([OWiD](#), 2021), there is still a clear positive correlation between energy consumption and GDP growth. Too bad for European nations.

Energy Consumption and GDP Growth

Real GDP Growth 2019 to 2024 (in %)



Note: Chart shows 20 largest economies plus DNK, FIN, NOR, SWE.
Data sources: IMF WEO April 2026, Our World in Data

Path forward

Corporate Museums vs New Stars
Reforms and Possibilities



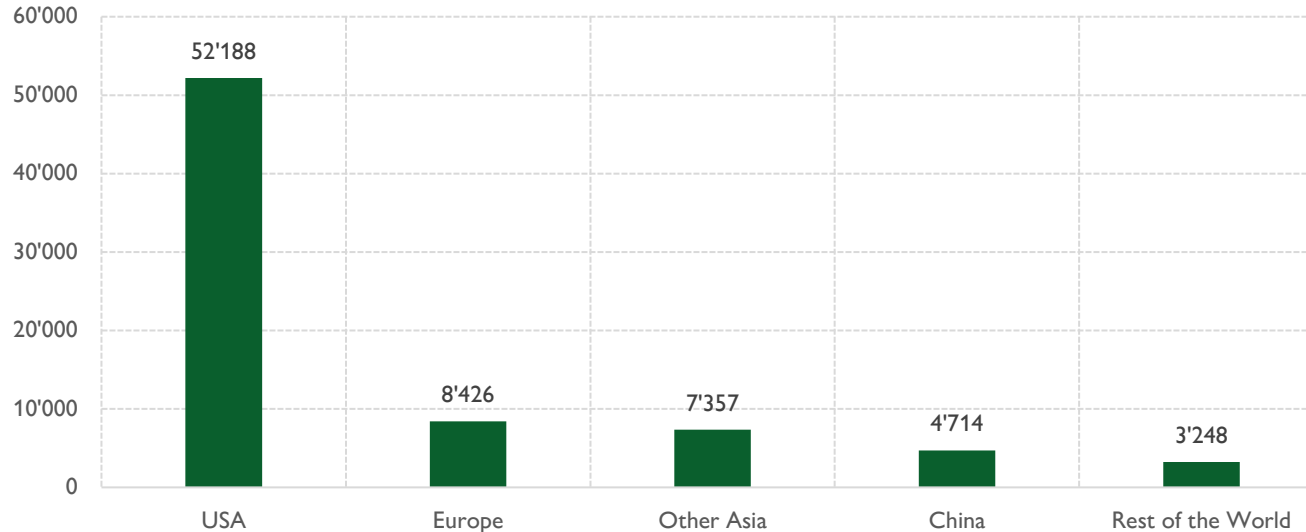
Life does not ask what we want.
It presents us with options.

Thomas Sowell

European firms are not just corporate museums.

- Europe still has several excellent companies, both listed and private.

Total Market Cap of Global Top-200 Firms
in billion US Dollar



Europe includes
UK, CH, FR, NL, DE, ES, IR, IT, DK, BE, SE

Other Asia includes
TW, KR, JP, IN, SG, TH, HK

Rest of the World includes
SA, CA, AU, AE, BR

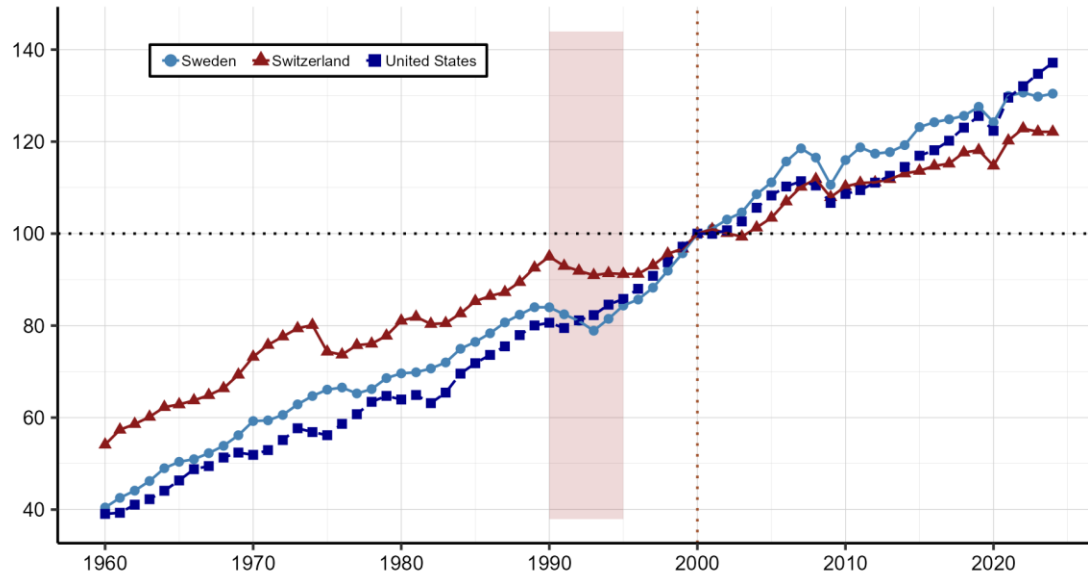
Data: companiesmarketcap.com, May 2026

Reforms, restructuring, innovation – it is possible in Europe

- Recall Sweden's reforms in the 1990s and Stockholm's successful start-up cluster:

European nations can reform themselves

GDP per capita in constant LCU (2000 = 100)



Note: LCU = local currency units.
Data: World Bank

Stockholm:

#2 globally in unicorns per capita

Spotify, Klarna, Mojang, King, iZettle

- Early broadband**
tech-savvy consumers
- Engineering culture**
KTH + Ericsson/ABB/Volvo
- Flat hierarchies**
fit startup culture
- 1990s reforms**
telecom deregulation
- Tax reform**
viable stock options
- Public VC**
Industrifonden

Nokia recovering from a Nokia moment

- Founded in 1865, the Finnish firm has reinvented itself – multiple times:



1960



1973



2000



today

Conclusion

Key points & discussion

Let's sum up the main points.

- The global business environment has changed dramatically in this century. There is no way back.
- Europe's historical success rests on pillars, some of which are substantially weakened & weakening.
- The Old continent has much to lose. Put differently, it has much to fight for.
- Reforms & restructuring is needed – many of our current paths don't lead to a successful future. But there are precedent cases from both politics and business that should encourage us.
- Optimism is a duty, said Karl Popper.

Thank you. Let's discuss now.



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