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Comparative economics in a changing world and the role of Europe

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Abstract:

In this paper, we briefly discuss the variety of topics and methods of Comparative Economics and how it evolved over time, not only based on new interpretations and paradigms, but also due to new historical facts as well as a rapidly changing economic, institutional, and geopolitical context in the world. Great transformations have occurred in the last decades, especially after the fall of the Soviet Union and the supposed "end of history." However, history never ends, and we are witnessing profound changes not only in individual countries but also in the international economic order, accompanied by attacks on multilateralism and an evident "slowbalization" in international trade, not to mention the innovations and developments – still largely unpredictable – related to Artificial Intelligence and the so-called Fourth Industrial Revolution. We analyze in particular the delicate position of the European Union, in consideration of its long-run decline as an economic power and its recent failures in acting as a protagonist in a turbulent world; yet its actuality and perspectives should be preserved, also by rediscovering and strengthening its initial values.

Jel classification: P0, P50, P51, P52

Keywords: Comparative economics, Geopolitical changes, New perspectives, EU

1. Introduction

In this paper, we briefly discuss the contents and evolution of Comparative Economics (CE), especially after the collapse of the Soviet Union and the hypothesized "end of history." CE considers the evolving "complex stylized facts" characterising the world economy, but also the changing institutional and geopolitical context. The latter has undergone many significant transformations, especially in the last decades. In Section 2, some "great transformations" are briefly mentioned, jointly with key evolutions in Comparative Economics' main topics.

In Section 3, we recall that the economic take-off has characterized many world regions in the last half-century, but it has been particularly manifest in the area now called the "Global South." However, this economic development has not always been accompanied by a better income and wealth distribution (at least within countries) and by a generalised and increasing diffusion of democratic regimes. Moreover, considering

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the world scenario, a new worrying feature refers to the recent attacks on the global economic order and on multilateralism. Apparently, more persisting evidence is the deceleration in the "globalization process" (i.e., a "slowbalization"), which has been prevailing in the last two decades.

In this context, another key question refers to the position of the European Union. In Section 4, we emphasize the long-run decline of the EU in the world (first in terms of real GDP), at least since 1980; the key reason is the fast growth of the "Global South," but the recent deceleration in EU growth is more apparent than that of the US. The big shocks – from the global financial and sovereign debt crises to the pandemic crisis – had worse effects in Europe; after the Great Recession, some dramatic policy mistakes, including austerity measures in fiscal policies and the "too little too late" approach regarding monetary policies in the Eurozone, were the key explanations. By contrast, the response to the pandemic shock has been much more effective (thanks to the "Pandemic Emergency Purchase Programme" decided by the European Central Bank in March 2020 and the "Next Generation EU" plan approved by the EU Council in July 2020). However, still now the EU lags behind the US (and even China) in new technologies and their applications. Moreover, the European Union has been apparently absent in recent conflicts (where it could have been a crucial mediator); instead, it should recover and stress the original value of peace, along with the enduring strengths of the "European economic and social model," the valued "social welfare" system, and the still high attention paid to education, health, and social security.

In the concluding section, we highlight that the major contrasts between democracy and autocracy and between wealth and poverty persist and require complex scientific investigations, also adopting new interdisciplinary approaches[1], and comprehensive policy decisions. Then, we recall that studies on economic systems and the comparative approach continue to have the necessary wider set of instruments that are useful for a better understanding of a complex and dynamic reality, also in order to suggest significant policy measures. In particular, CE constitutes a valuable basis for a clearer interpretation of the economic and political rise and decline of nations in the global context. Finally, we summarize the current trends and perspectives in the

[1] On a thoughtful "Renaissance in Economics" see Becchetti et al. (2024).

globalization process and, in particular, we focus on the desirable reactions to stop and reverse the – economic and political – decline of the European Union.

2. Comparative economics: the power of history

Systemic approaches and, *lato sensu*, comparative visions have played some role since the very beginning of economic science (Smith, Ricardo, Marx), and especially after the First World War and the 1929 Great Crisis in capitalistic economies, with the debate on the importance of information and the feasibility of socialist planning (Hayek vs. Lange), the analysis of some failures of market economies and the importance of macroeconomic policies (Keynes), as well as the dynamics of economic systems and the role of innovations (Schumpeter).

However, it was after the Second World War that Comparative Economics gained a significant and growing importance in theoretical and empirical literature, as well as in academic teaching, mainly focusing on the comparison of the two major economic systems, capitalism and socialism (Valli, 2022), and investigating the features and dysfunctions of planned economies (Kornai, 1980). In addition, several studies focused on the major problems of developing economies, especially on China's successful transformation after 1978.

Since the 1989 fall of the Berlin Wall, huge geopolitical events have occurred (the disintegration of the "Soviet bloc" and the Soviet Union itself, German reunification, etc.), leading to talk of the "end of history" (Fukuyama, 1989). But history never ends, and scholars of comparative economic systems, while renewing their topics of research, have proven far more capable of interpreting the complexities and difficulties of systemic transition paths than mainstream economists, that wrongly suggested a "speedy transition" from planned economies to market economies.

While in Central and Eastern Europe the onset of such complex and varied systemic transition processes was accompanied by periods of severe recession and high inflation (Marelli and Signorelli, 2010), in Western Europe the process of integration accelerated with the approval of the Maastricht Treaty (1992), which would later lead to the launch of the European Economic and Monetary Union (1999) as a more ambitious – but still incomplete – institutional system (Marelli and Signorelli, 2017); in addition to this important "deepening" process, the "widening" of the European Union continued in the 1990s until the historic enlargement of 2004 with the entry of the first eight countries of the former Soviet bloc[2]. During this fifteen-year period of significant changes in the Old Continent, the rest of the world was driving the developments of market globalization, with the key role of China, and the United States mistakenly convinced that they could consolidate themselves as the sole global economic and political power. Furthermore, in this context, there was growing concern, even among CE scholars, about the sustainability of development processes, not only in environmental terms, and awareness of the critical issues of market globalization, including in terms of persistent and emerging inequalities[3].

With the systemic financial crisis that erupted in the United States in 2008, the global economy entered a prolonged period of instability and high uncertainty, especially in the most integrated part of the EU (the Eurozone), caused by wrongly designed monetary and fiscal policies applied in the above-mentioned institutionally incomplete system[4]. The differences in the impact of the Great Recession (2009) and the sovereign debt crisis, or Eurozone crisis (2010–13), on different countries stimulated further development of CE analyses on the diversity of market economy systems, as well as the relevance of multi-level institutions and policies.

The 2020 pandemic shock, on the one hand, has confirmed the crucial importance of Keynesian monetary and fiscal policies; on the other, due to differences in impact and management, it has further highlighted the key importance of CE analyses on the diversity of economic systems, the role of institutions, welfare systems, and policies, including the potential and effectiveness of industrial policies in democratic and autocratic countries.

[2] As for some empirical investigations, see Marelli et al. (2019) for a discussion of economic convergence in the EU and Eurozone, and Demidova et al. (2015) for a comparison between Russian and Italian regional youth labour market performances. Regarding the better performance of countries formerly belonging to the Soviet Union and later joining the EU, see Auriat (2025).

[3] A huge literature has considered several aspects of these complex dynamics; for example, Brada et al. (2012 and 2014), Bruno et al. (2014), and Caroleo et al. (2018) consider some labour market features and performances, while Tanveer Choudhry et al. (2016) and Bartolucci et al. (2018) investigate key determinants and the complexities of GDP dynamics.

[4] Regarding the impact of the financial crisis on labour markets, see also Choudhry et al. (2012), Signorelli et al. (2012), Bruno et al. (2015), Dal Bianco et al. (2017), and Bruno et al. (2017). On the policies needed for investment in European countries, see Della Posta et al. (2020) and Saccone et al. (2022).

Over the last fifteen years, after impressive growth since 1978, China has returned to being the leading global economic power in terms of total GDP (at purchasing power parity), contributing to reversing the secular declining trend in the economic weight of "non-democratic" countries; such developments further pushed the CE literature towards the investigation of the drivers of sustainable economic growth (R&D, human capital, productive investments, etc.), with a renewed focus on the role of multi-level institutions and industrial and macroeconomic policies.

The pandemic and further geopolitical crises have accelerated transformations and a rethinking of globalization processes in a context of prolonged economic and political decline of Western countries (mired in the difficulties of reforming a market capitalism with an excess of finance[5] relative to production) in favor of emerging countries, driven and led by China (with its "state capitalism", autocratic and deeply questionable regarding fundamental human rights, but effective in terms of policy and the capacity for continued economic development).

In the last decades, characterized by high systemic uncertainties and global instabilities and conflicts, CE theoretical and empirical approaches have proven capable of effectively contributing to the explanations of the economic and political rise and decline of nations, also through careful consideration of multiple non-economic factors, systemic complexities, and policy differences[6].

3. The new geopolitical and economic order in the world

As already briefly mentioned in the previous section, after the end of World War II, for many decades the world was basically divided into two main parts: the West (in political, not geographical, terms) – including Western Europe, North America, Japan, South Korea, Australia, and New Zealand – and the Communist bloc, led by the Soviet Union. In economic terms, the West was characterised by the free market, the key role of consumption, and the "growth" ideology favoured by the dominance of liberal

[5] On the huge expansion of "financialization" and the regulation and policies for a sustainable financial system, see Vercelli (2019).

[6] As significant examples, see the numerous contributions in the two books edited, respectively, by Andreff (2021) and by Dallago and Casagrande (2023). As for a survey of the "economic systems" literature by Italian economists, see Signorelli and Valli (2025).

democracies; in the Soviet Union (but also in Eastern Europe, China, Cuba, and **a** few other countries) there were centrally planned economies, electoral or closed autocracies, with a pervasive role assigned to the State. There were also some hybrid models, and the European Economic Community itself, established in the 1950s of the twentieth century, was characterised by a peculiar model, called the "social market economy", with an important role given to State-owned enterprises and to the "Welfare state" (public expenditures for education, health, and social protection). And, obviously, CE was developed to compare the key characteristics and performances of each type of economic (and social) system in historical real time.

In the 1950s and 1960s, many scholars talked about the "Third World", including the "underdeveloped" economies of Africa, Asia, and Latin America; later called "developing" or "emerging" countries, and currently named the "Global South". In the two decades mentioned, the processes of "decolonisation" were completed, and in most of these economies market principles were propagated. The take-off of these countries started in different periods, but it eventually spread to almost all world regions (with many exceptions mainly in Africa). The most successful groups of countries include the Newly Industrialised Countries (four countries in South-East Asia[7]) since the 1960s, China since the 1980s, and India in this new century[8] (the two latter countries being part of the "BRICS" group, together with Brazil, Russia, and South Africa); finally, the take-off involved most other countries in the world: for example, Indonesia, Turkey, and Vietnam in Asia; Mexico, Argentina, and Chile in Latin America; Egypt and Morocco in Africa; and many others.

Regarding this vast process of world economic development, at least two features must be mentioned. The first one is that, focusing on the distribution of income, there was a general reduction in disparities across the world, thanks to the take-off and fast growth of the previously mentioned countries of the Global South; at the same time, there were increasing disparities in income and wealth distribution within countries,

[7] Originally (in the 1960s) the NICs included Hong Kong, Singapore, South Korea, and Taiwan. See also Valli (2017) for a detailed focus on Japan, Indonesia and South Korea.

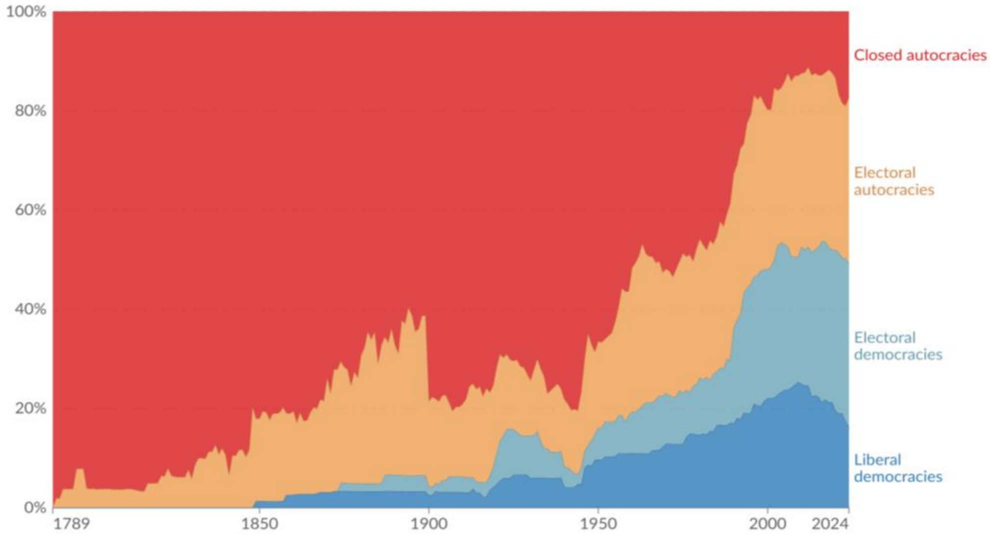
[8] As for differences between China and India, regarding not only the period in which the take-off took place (in India about two decades later than in China) but also the different drivers of development, see Marelli and Signorelli (2011). In addition, Valli and Saccone (2009) discuss key features of the structural change and economic development in China and India, Valli (2015) investigates the rise of the two giants in a comparative perspective, and Holscher et al. (2010) briefly analyse the role of China and India in the global economy.

including the most developed ones (this is the so-called "Milanovic elephant" hypothesis: see Milanovic, 2016); we shall consider this important point later. The second feature to emphasize is that the process of economic development was not accompanied by a persisting shift of political institutions toward a "liberal democratic" regime; in fact, (electoral and closed) autocracies have recently increased in the world, both in numbers (see Figure 1)[9] and, more clearly, in terms of population (see Figure 2) as well as economic and political weight. For a long time, the number of "autocratizing" countries was offset by a larger number of "democratizing" countries; but in the last decade, the number of countries that are becoming less democratic has been higher[10]. Considering the 179 countries observed in 2024, 91 belong to either closed autocracies (31) or electoral autocracies (60), while 88 are either electoral democracies (59) or liberal democracies (29).

[9] The data in Figure 1 refer to the percentage of countries in relation to the total number of states considered (it should be noted that there is a distortion in 1900 due to the increase in the number of countries considered). It should be noted that: (i) "Closed autocracies" refer to those states in which citizens do not have the right to choose either the head of government or the parliament through multi-party elections; (ii) "Electoral autocracies" correspond to countries in which citizens have the right to choose the head of government and/or the parliament through multi-party elections, but lack certain fundamental freedoms, such as freedom of association or expression, which make elections meaningful, free and fair; (iii) "Electoral democracies" relate to those states in which citizens have the right to choose the head of government and/or the parliament in meaningful, free, fair and multi-party elections; (iv) "Liberal democracies" refer to countries where citizens enjoy individual rights, minority rights exist, and, in addition, citizens are equal before the law and government actions are balanced by the legislative and judicial branches.

[10] In 2024, the number of countries that are autocratizing reached an all-time high (45). See https://ourworldindata.org/less-democratic.

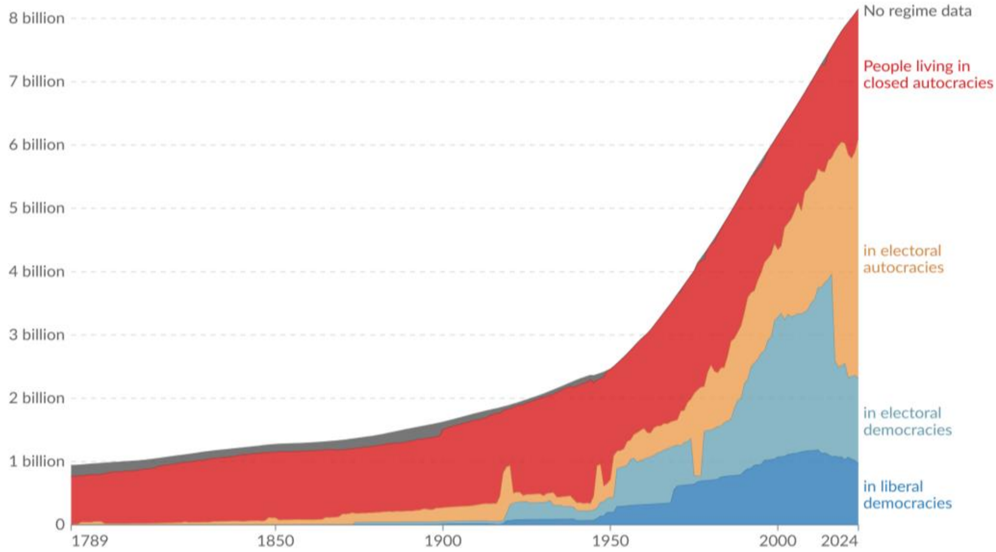
Figure 1 – Autocracies vs. Democracies (% shares in number of countries)



Source: V-Dem (2025) https://ourworldindata.org/less-democratic

If we consider the world population distribution along the four institutional categories above mentioned, the evolution in the last decade was much stronger in favour of autocracies (especially electoral autocracies), with a remarkable decline in electoral democracies (Figure 2). In 2024, the global population was 8.1 billion, and the very high number of 5.8 billion people were living in autocratic countries (more than 2 billion in closed autocracies and 3.8 billion in electoral autocracies), while only 2.3 billion people were living in democracies (1.3 billion in electoral democracies and less than 1 billion in liberal democracies). The above data – together with the trend of the last decade – are impressive, not to mention that several democracies (both liberal and electoral) have entered into a persistent crisis in several aspects.

Figure 2 – Autocracies vs. Democracies (population in billion)



Source: V-Dem (2025) https://ourworldindata.org/less-democratic

In addition to important changes in the internal political setting of many States, also in the Western world, we must recall various attacks on the "international order" based on multilateralism and prevailing since the end of World War II. This order, inspired by Western countries and based on the role of multilateral institutions (especially the United Nations, but also the World Trade Organization and other international institutions), embodied a sort of synthesis between market and democracy. Such an order has now been substituted by a dominant role of the strongest countries, especially the US and China (with the addition of Russia, at least in terms of military power)[11]. The novelty of the recent changes is the attacks coming from the leading country of the Western bloc, i.e. the United States, especially during the second Trump presidency.

In the economic sphere, Trump's challenge was exemplified by his decisions regarding trade duties, imposed on almost all countries in the world. For example, in the case of imports from the European Union into the United States, the "normal" tariff was set (in the summer of 2025) at 15%, about four times the previous value. In addition to the imposition of such high tariffs, the continuous changes in Trump's

[11] We should recall the different dimensions of power, as does Valli (2025), who considers, in addition to the economic dimension, the technological level, financial power, political and social cohesion, and military power.

decisions (increasing or reducing the announced tariffs also on the basis of non-economic explanations) caused economic uncertainty, which can be particularly damaging for firms' productive or investment choices. However, it must be added that the previous century-long globalization process was already decelerating, at least since the global financial crisis of 2007–08.

As a matter of fact, the first stage of globalization goes back to the last decades of the nineteenth century, characterised by fast growth of international trade (thanks to exchange rate stability), foreign direct investments, and huge migration flows (for example, from Europe to America). Then, between the two World Wars, protectionism (with frequent devaluations of the exchange rates) was predominant. After the end of World War II, we had a new stage of globalization, characterised by trade flows not only in the North–South direction, but also North–North (and even South–South), as well as by intra-industry trade in addition to the more common inter-industry trade; some other characteristics of this new stage of globalization include the increasing role of multinational enterprises (with the consequent spatial fragmentation of production within the "global value chains"), the growing importance of trade in services (with financial liberalization progressively reached since the 1980s), and the recent role played by the digital economy (information and communication technologies).

The peak of the globalization process can be identified with the start of the twenty-first century: in 2001, China was admitted to the World Trade Organization, which is the multilateral organization specifically designed to favour trade liberalization. Not only had many developing countries begun their take-off thanks to globalization, but its benefits accrued also to most of the developed world, at least in the Western hemisphere (Sachs et al., 2020). However, at the beginning of the twenty-first century, "no-global" movements appeared in some countries, and later dissatisfaction spread because of different reasons: crowding-out of workers in developed countries (with a generalised "race to the bottom", including lower wages or weaker workers' rights); difficulties for developed countries in competing with the emerging ones (characterised by lower labour costs and feebler social and environmental regulations); and, at the same time, difficulties for developing countries in competing with the most developed ones (due to the technological gap); as well as a reduction of national sovereignty (because of the operation of multinational enterprises and the dominance of financial companies).

Notice that the losers from globalization (Stiglitz, 2002) began to push, at the beginning of this century, people's support toward populist and nationalist parties in many countries[12]. Globalization is now seen as a major contributor to the stagnation of living standards, leading to protectionism and to nationalistic and corporatist economic policies (Drabek, 2024). Growing inequality and stagnating living standards are widespread, despite gains in labour productivity; the decline in labour's share in national income and wealth is caused not only by globalization but also by changes in technology (Brada and Park, 2025). In this paper, it is explained that changes in technology brought by the Fourth Industrial Revolution[13] may lead to a growing incompatibility between the productive and political spheres, marked by polarization and conflict both within and among countries.

The global financial crisis of 2007–08 and the so-called "Great Recession" of 2008–09 represent a first brake in the globalization process. In the subsequent years, we observe a "slowbalization" (Della Posta, 2023), with a deceleration in trade growth; thus, the "degree of openness" – in the world as a whole – stands still, being in a range between 50% and 60% in the last two decades (in any case double the corresponding figure in the 1970s)[14]. Deceleration in the globalization process has concerned goods trade more than services (with different intensities according to the productive sector); in any case, the tertiarization of economies reduces by itself the degree of openness because it increases GDP but less so international trade. Moreover, the slowing down is partly due to the falling prices of goods exchanged in international markets (Baldwin, 2022), falling prices that are themselves a successful outcome of globalization. The diffusion of global value chains is another explanation: for example, China – besides paying greater attention to domestic demand – has shifted its production up the value chains, by producing locally some intermediate goods previously imported and just assembled at home.

[12] Another peculiar feature is that people in favour of globalisation mostly live in capital cities or in the biggest cities of each country, while the losers are concentrated in internal regions away from metropolitan areas. This can partly explain the outcome of political elections in the United States, in the UK (including the Brexit vote) and in some continental European countries.

[13] The term the Fourth Industrial Revolution was coined by Schwab (2017), who argued that rapid changes in technology, including Artificial Intelligence, highly sophisticated automation, the internet of things, the smart factory, digital fabrication, etc. would produce an economic system where computers would increasingly be able to control production activities without human intervention.

[14] See the annual reports of the World Trade Organization.

This process of slowbalization refers not only to trade but also to foreign direct investments and to global value chains. In many cases, we have observed "reshoring" of industrial activities from developing countries to old industrial (Western) countries; in some other cases, we observed "near-shoring" or "friend-shoring", with a relocation of firms or plants in more suitable countries (but in the current world, "who are the real friends?", as Shih, 2022, argues). More recently, in addition to several persisting conflicts around the world, the Russian war in Ukraine and the consequent sanctions decisions – with their impact on energy and other markets – and the conflict and instabilities in the Middle East have caused new disruptions in international trade. Regional or even bilateral trade agreements have become more common. The new evidence is the shift of international trade along geopolitical lines, with an increasing importance of trade within blocs or world regions.

The recent wave of protectionism has initially concerned the relationship between China and the United States (already with the first Trump administration since 2017, but with little change in the 2021–24 Biden administration). The most used concept has become "decoupling" of the two economies. This difficult relation with China remains also with the new Trump administration (since 2025), but the new feature of its trade policy is its all-encompassing character and its (almost chaotic) uncertainty, because tariffs have been raised on imports from all countries in the world, but their amount – much higher than in all recent decades – has been changed several times. The above-mentioned US decisions can be partly explained by the persistent current account deficit (imports have far exceeded exports since the 1970s) and, more importantly, by a kind of desperate reaction to the apparent relative economic decline in recent decades in the global scenario, in favour of China and other emerging countries (see Table 1 for the weight of different countries in real GDP terms). Looking ahead, the winner in the competition of the Fourth Industrial Revolution (or technological competition) will be the winner in the competition between the two countries; furthermore, the country that succeeds in reducing inequality and maintaining growth will win the competition (Brada and Park, 2025)[15].

[15] The authors show in their historical overview that during the First Industrial Revolution industrialization led to incompatibilities between the economic sphere and a political sphere based on rule by monarchs and land-owning nobles; these incompatibilities caused poor economic outcomes for workers and, ultimately, led to deep changes in the political system. In the Second and Third Industrial Revolutions, compatibility emerged between new technologies and political systems based on

In this context, the attitude of the EU toward China has been less dramatic, and in the most recent years the European Commission has adopted a "de-risking" approach; while for the US China is considered an opponent, or at least a threat, for the EU it is a partner with which Europe should build cautious but productive relations (Della Posta, 2023).

Table 1 – Economic weight of selected countries or areas (% of world GDP in PPP)

	1980	1990	2000	2010	2020	2025	2030*
Emerging and Developing Economies	35.4	35.4	41.9	51.9	58.3	60.9	63.7
Advanced Economies	64.6	64.6	58.1	48.1	41.7	39.1	36.3
China	2.1	3.6	6.6	12.7	18.5	19.6	20.4
United States	21.6	21.7	20.4	17.1	15.2	14.6	13.9
European Union	27.5	25.0	21.6	17.6	15.1	14.0	12.9
India	2.8	3.5	4.0	5.4	7.0	8.5	9.9
Japan	7.8	8.8	6.7	4.9	3.8	3.2	2.8
Germany	7.0	6.4	5.2	4.0	3.5	3.0	2.7
Russia	-	-	3.1	3.5	3.3	3.4	3.1
Brazil	4.0	3.4	2.9	2.9	2.4	2.4	2.3
France	4.5	4.2	3.5	2.8	2.4	2.2	2.0
UK	4.0	3.8	3.3	2.7	2.3	2.1	2.0
Italy	4.7	4.5	3.6	2.6	1.9	1.8	1.6

Source: International Monetary Fund (2025). www.imf.org/external/datamapper/PPPSH@WEO

*Note: * Forecast IMF (2025)*

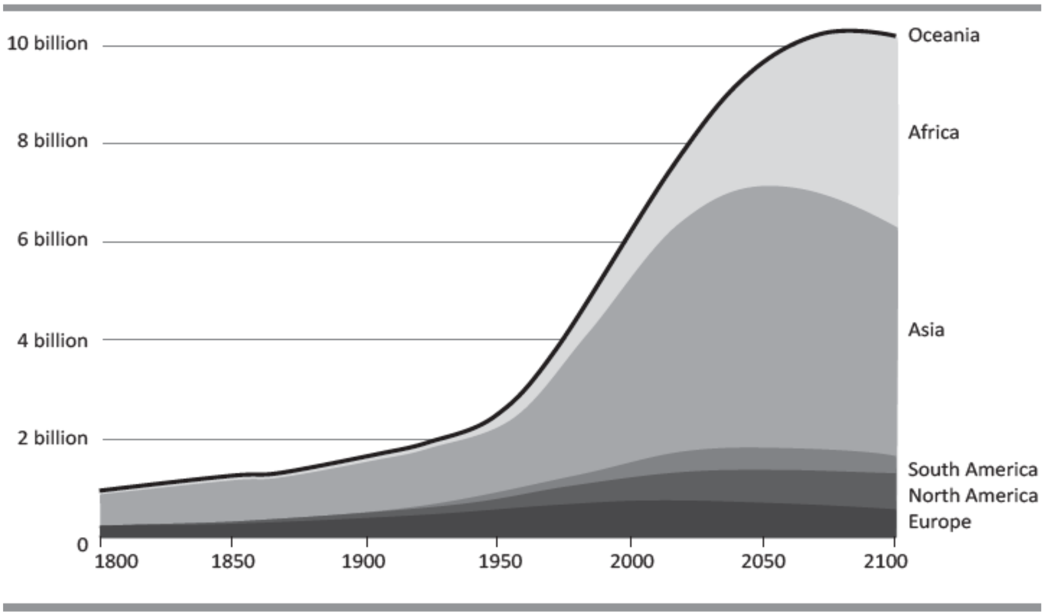
Another issue to be discussed is that the economic size and power of a country significantly rely on its demographic dimension, and the evolution of its economic weight in the global scenario depends on the joint evolution of per capita GDP – mainly depending on productivity growth – and population dynamics, relative to the world average. Obviously, long periods of remarkable productivity growth (like that occurred, for example, in the UK during the First and Second Industrial Revolutions, or in Japan and Italy after the Second World War until the 1980s) can temporarily reduce the

representative democracy, leading to favourable outcomes. The changes in technology brought by the Fourth Industrial Revolution may lead to a growing incompatibility between the productive and political spheres, marked by polarization and conflict both within and among countries. A key aspect of this conflict is the rivalry between the United States and China. The authors evaluate the strengths of the two countries and analyze which of them is likely to win the competition for dominance during the Fourth Industrial Revolution.

importance of demographic size and trends. However, especially from a very long term perspective, the latter dimensions are crucial for determining the rise and decline of the main economic powers.

The United Nations data and forecasts (Figure 3) show that: (i) global population will reach a climax before the end of the century (a little over 10 billion people) after a long period of impressive growth, especially in the last five to six decades; (ii) the above huge increase was mainly due, until now, to trends in the Asian continent; (iii) the population growth forecast for the world in the next five to six decades will be mainly due to the African continent; (iv) the relatively small population sizes of the other continents will slightly decline in the cases of Europe and South America, but will somewhat increase in North America.

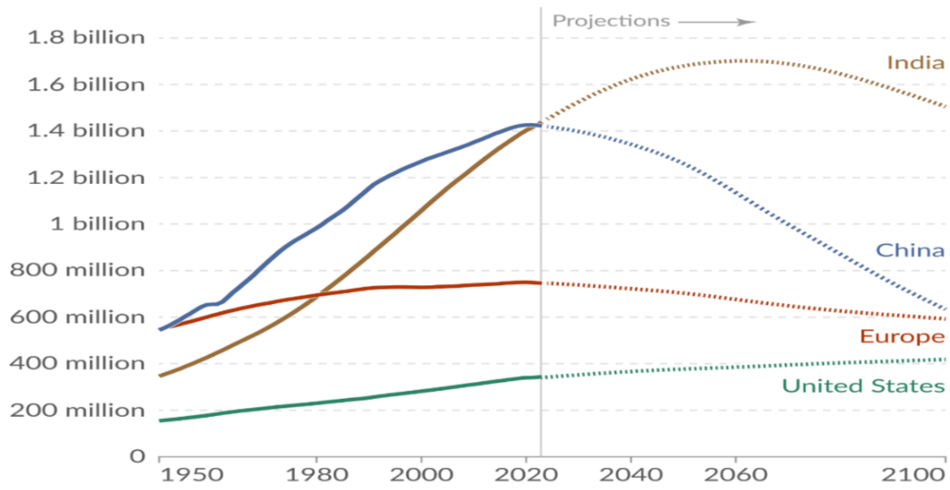
Figure 3 - Population dynamics and forecasts in the Continents (1800-2100)



Source: HYDE (2023); Gapminder (2022); UN WPP (2024) – OurWorldinData.org
Note: 2025-2100 forecasts based on average scenario of United Nations.

If we look at the size and dynamics of the three most populated countries in the world (India, China, and the US), with the addition of Europe (Figure 4), we can highlight that: (i) after impressive dynamics for several decades (from less than 400 million in 1950 to 1.4 billion in 2020), India has recently surpassed China's population and will probably continue to grow (though at a slower pace) in the next three decades; (ii) China has just reached the peak of its population (1.4 billion), after considerable growth in the past decades (it was less than 600 million in 1950), and has started its declining trend (with a projected population of a little over 600 million in 2100); (iii) the US has had a quite stable population growth in the past decades (starting from less than 200 million in 1950 and surpassing 300 million in the new century), and it will continue its demographic growth, but at a lower rate until 2100 (exceeding 400 million inhabitants); (iv) as for the "Old Continent", after some decades of population growth (at decreasing but positive rates), a clearly decreasing tendency has recently started and will persist in the next decades according to UN projections.

Figure 4 - Population dynamics and projections (1950-2100)



Source: United Nations, World Population Prospects (2024)

Note: projections (2025-2100) in dotted lines based on UN assumptions (medium scenario)

The European population decline – accompanied by an evident ageing of the population – will be accompanied in the next decades by a similar but much stronger dynamic for China, which is today the first economic power (in terms of GDP at PPP). Will China be able to manage this new demographic trend with high and rising productivity growth able to compensate for it and maintain global economic leadership? It is very difficult to give a simple reply, depending also on the real capacity to adopt adequate policies and strategies, compared to other large economies.

World population has a significant concentration in a few large countries[16]; the European Union is the third most populated economy, and in terms of the relation between demographic and productivity growth, it will face future challenges similar to those above described for China. In addition, the EU will have to address some challenges also on the technological side (as explained in the next Section). It could also assume a potentially important political role, not fully expressed at present in the international scenario, a role that in the future could be achieved through further wise progress in the integration process.

4. The position of the European Unions: challenges and perspectives

In face of the recent developments in the world economy, but also in the global geopolitical setting, what is the role played by the European Union? Many observers think that the position of the EU has weakened both in economic and geopolitical terms. The pessimistic view is that, without proper reactions, a scenario of disintegration is not impossible[17].

The recent weakness of the EU has been especially revealed at the moment of the imposition of the US' duties (during the summer of 2025), because the new 15% normal tariff was tolerated with little resistance and, on top of it, there were requests for a big amount of investments (to be made by private firms in the US) and for increasing military expenditures (by European governments within NATO), even requiring such materials to be purchased directly in the US. Even considering the war broken out in Europe in 2022, the Russian invasion of Ukraine, it is true that many decisions within the EU Council – for example, to give financial and military aid to Ukraine and to introduce different types of sanctions against Russia – were taken (despite the frequent

[16] Considering the main countries according to population ranking in 2024 (UN data) we find India (1,451 million), China (1,409), the European Union (450), the US (340), Indonesia (284), Pakistan (251), Nigeria (233), Brazil (212), Bangladesh (174), Russia (143), Mexico (131), Japan (129), Egypt (117), Vietnam (101), Iran (92), Turkey (86), Germany (83), Thailand (72), the UK (69), France (68), Italy (59), and Spain (49). The first EU country is Germany, which is only 16th in the global ranking.

[17] By the way, a (slow) process of disintegration is well-matched with both the final aims of various political forces within the Union (in important countries like Germany and France, but also in Hungary and some other Eastern countries) and the declared intentions of the President of the US (see for example the "National Security Strategy" published by the White House in December 2025).

opposition of Hungary and some other countries); nevertheless, the EU is not seen as a significant player, since it could have been a more effective diplomatic mediator[18].

Even in strict economic terms, the recent performance of the European Union has been unsatisfactory. After the pandemic recession, which hurt the EU more than the US (in fact, -5.6% was the real GDP change in 2020 in the EU compared to -2.2% in the US), the subsequent recovery was a little greater in the EU only in 2021–22; then US growth surpassed the EU's in all most recent years: in 2023 (2.9% vs. 0.4%), in 2024 (2.8% vs. 1.1%) and in 2025 (2% vs. 1.3%)[19].

Also, in the decade before the pandemic shock, economic growth was sluggish in Europe; this was partly caused by the "austerity approach" consequent to the global financial crisis (2007–08), the "Great Recession" (2008–09), followed by the sovereign debt or Eurozone crisis (2011–12). As a matter of fact, the contagion in the Eurozone after the sovereign debt crisis propagated to many countries and caused the subsequent double recession and then a weak recovery, i.e., a substantial stagnation; such developments were also a consequence of the uncertain, delayed, and inadequate economic policy responses by the EU institutions. In fact, political uncertainties and communication errors worsened market expectations; EU policies have been delayed in some cases and inadequate in other circumstances; this is the criticized "too little, too late" approach (Marelli and Signorelli, 2017).

While the most decisive steps to end the sovereign debt crisis were taken in 2012 by the ECB (see Mario Draghi's famous "whatever it takes" in July and the adoption in September of the "Outright Monetary Transactions" (OMT) plan), the "austerity approach" made the fiscal rules of the Stability and Growth Pact more stringent (and a new Fiscal Compact was introduced in 2012). Many European countries – especially in the periphery – suffered because of the collapse in internal demand; consumption was

[18] Considering the unsatisfactory results we are observing at the end of 2025, a realistic (or even better) deal could probably be achieved three years ago (thus avoiding hundreds of thousands of injuries, also among civilians).

[19] The last figure (1.3%) refers to the euro area. Source: OECD Economic Outlook, December 2025. The better performance of the EU in the post-pandemic period (since 2023 as well as considering long-term forecasts) is examined by Rostan and Rostan (2025).

reduced because of wage restraint, high unemployment, and high fiscal pressure (consequent to fiscal consolidation measures)[20].

Even on the supply side, growth-oriented policies should be grounded not only in "structural reforms" (liberalisations, reduction of fiscal pressure, pro-market legislation, etc.) when necessary, but also in new industrial policies, putting R&D and innovation processes at the core. Lagging countries can gain competitiveness not only through wage and price moderation (i.e., the so-called "internal devaluation"), but especially by upgrading their industrial structure and specialisation, product differentiation, and technological content.

Private investments were low, especially due to stagnation or recession and pessimistic expectations, but also because of high real interest rates (only in 2015 Draghi lowered nominal rates to zero). Despite some attempts to push public investment, also at the European level (e.g., the "Juncker Plan"), we must wait for the strong reaction after the pandemic shock: the adoption of the Next Generation EU plan in 2020. It contemplates new investments (for a potential total amount of up to €750 bn in the period 2021–26), financed with the issuance of common bonds at the European level.

Regarding European bonds, we should go back to the discussion following the sovereign debt crisis. Many scholars agreed that the crisis exacerbated well-known flaws of the EMU's construction (De Grauwe, 2013; Baldwin and Giavazzi, 2015). Probably, the major flaw is the complete asymmetry between the two key macroeconomic policies; this is why the EMU is sometimes defined as an "incomplete" monetary union: while monetary policy has been centralized, fiscal policy is still assigned to national governments. A tiny EU budget – 1% of GDP[21] – is completely inadequate to carry out counter-cyclical policies, not to mention that a specific budget for the Eurozone is lacking. Moreover, structural and fiscal policies aimed at some "real convergences" are needed to reduce the largest differences across States[22].

[20] Austerity measures in the euro area were too concentrated in a short span of time, too diffused, and too persistent, thus austerity became "self-defeating", because the consequent fall in production was so great that it amplified the public deficit and debt ratios instead of reducing them (Marelli and Signorelli, 2017). On the other hand, we should not forget that high debt ratios can negatively impact economic growth in the long run (Morganti, 2023).

[21] This ratio was just temporarily increased in 2020-26 thanks to the NGEU plan.

[22] For example, the different types of capitalism characterising the peripheral countries of the EU (southern and eastern), whose catching up ability and sustainability are doubtful, as emphasized by Nadoban (2023).

The long-run longevity of the EMU will also require some shock absorption mechanisms and innovative crisis management instruments, more effective than the rescue funds (such as the ESM introduced in 2012), the OMT plan by the ECB (already mentioned), or the more recent "transmission protection mechanism" (introduced by the ECB in July 2022)[23]. A separate budget and specific institutions (e.g., a Eurozone Finance Minister) for the euro area were suggested by many scholars in the last ten years; including common financial instruments based on the principle of mutuality, like the "Eurobonds." At present, it seems that after the issue of common bonds linked to the NGEU plan, some countries – Germany in the first place – seem opposed to new experimentation, even for limited and specific reasons[24]. On the contrary, there are many examples of public goods with significant international spillovers, which could be more efficiently provided at the community level; for example, stabilisation functions, common defence systems and external policies (including border controls), large-scale investments (e.g., trans-European networks and large infrastructural projects), together with scientific research.

The ideal (future) assignment of budget and economic policy power to the EU (or Eurozone) level should be accompanied by appropriate innovations in the democratic and institutional setting. With 27 members, it is very difficult, sometimes impossible, to take important decisions, because the current Lisbon Treaty requires for some matters (admission of new members, foreign policy, fiscal questions, etc.)[25] unanimity in the European Council. Still now, some countries are against a change in this regard. The only alternative solution is the "enhanced cooperation" tool (foreseen in the Lisbon

[23] With the approval of the "Transmission Protection Instrument" the significant evolution in the strategy and instruments of the ECB was completed - without any change in its Statute or EU Treaties – moving from an initial very conservative vision towards an approach aware of the crucial space for intervention (through the possibility of printing money and buying public and private assets), very useful for preserving the sustainability of public finances and for guaranteeing liquidity in the system in contexts of large shocks and high uncertainty; now the ECB's vision is more similar to that of all other main Central Banks around the world, notwithstanding the much more complex and incomplete institutional framework in the Eurozone. It should be noted that with the significant diffusion of digital and crypto currencies, additional instabilities and needs for regulation arise (see Oldani et al. 2024) with a consequent push towards the future creation of Central Bank digital currencies.

[24] For instance, to provide financial aid to Ukraine; only in December 2025 were Eurobonds accepted for this purpose, for a limited amount (90 bln euro). The alternative views that the NGEU could have been an exceptional episode or instead that the pandemic might have represented a game-changer are discussed by Acocella (2022).

[25] As for the admission of new countries, we recall that almost ten countries (mostly located in the Balkans), are "candidate" countries waiting for the (eventual) admission decision.

Treaty), which has sometimes been already implemented, for example for the creation of the European Monetary Union itself (initially it included 11 countries, now 21 out of 27). About ten years ago, when the effects of the sovereign debt crisis were still under way, a leading scholar of the European economy, Paul De Grauwe, argued that – although if we admit that a "political union" is now out of reach – we should try anyway to move in that direction, perhaps following a strategy of "small steps" (De Grauwe and Ji, 2016).

A final point is that the economic decline of the EU is not only a fact of the last two decades – certainly exacerbated by the global financial crisis, the consequent sovereign debt crisis, the incompleteness of the monetary union, the wrong policy measures – but a longer phenomenon. Some key data are enough to explain this point (see Table 1 above). In 1980 the EU represented almost 30% of the world GDP (27.5% to be precise) and in 2025 this share fell to less than 15% (14.0% precisely)[26]. The key reason for this decline is, of course, the outstanding growth of China, India, and other countries of the Global South: for example, China's share was 2.1% in 1980 and is 19.6% in 2025, India's corresponding shares were 2.8% and 8.5% respectively. However, we should add that the decrease in the US share has been less dramatic: from 21.6% to 14.6%[27].

It is important to stress, in any case, that if the EU's decline has been noticeable, on the other hand the weight of individual countries has fallen in a more astonishing way: for example, Germany 3.0%, France 2.2%, Italy 1.8% in 2025. In Table 1, the IMF forecasts for 2030 show persistence in the above-mentioned trends. Hence, in a globalized world, where economic and political power is shifting to other world regions (especially Asia and other continents), a fragmented Europe would certainly fail (Marelli and Signorelli, 2017).

It is worrying that the EU's relative decline emerges not only from GDP data but also considering some other crucial aspects, for instance innovation and productivity

[26] Of course, in per capita terms the EU countries are still above the emerging countries, but below the US: if we set the per capita product of the US equal to 100, we get indices equal to 83.2% in Germany, 73.7% in France, 66.0% in Italy, compared to 30.7% in China and 11.9% in India (2022 data).

[27] The EU is still a trading power. It is the biggest exporter in the world (15% of total exports in value terms, which rises to 29% including intra-EU trade), China accounts for 13% and the US for 8% (2023 data). It is strange that this evidence has not been used in the deals regarding the duties imposed by Trump in 2025.

data. The competitiveness gap is the focus of the Report prepared by Mario Draghi (2024), who asks for specific incentives for research activities and advanced education. Not only in the "artificial intelligence" (AI) sector, but also in the production of chips and many other products (solar panels, electric vehicles, etc.) the EU is late compared to both the US and China[28].

Finally, we should not forget that, despite the recent weaknesses of the EU, the enduring strengths of the "European economic and social model" (including the European "way of life") should be prized: from the "social welfare" (that, although decreasing, is still a typical feature of European progress), to the still high attention paid to education, health (life expectancy is higher in Europe than in the US or in many other countries), social security, etc. Europe should just rediscover the original values that characterized its initial development, including the utmost value of peace[29]. Still, the desirable further steps toward a political union will be possible only if European politicians are able to maintain (or regain), without delay, a high consensus from citizens.

5. Conclusions

While until the fall of the Berlin Wall the comparison between systems was primarily focused on the major "isms" – capitalism versus "socialism" – in subsequent years it has shifted to issues of transition and integration, the variety of capitalisms, the critique or acceptance of neoliberalism, and the rise of major demographic and economic powers such as China and India, as well as complex environmental, social,

[28] The "industrial policies" have been implemented in very effective way in China, with a huge role of the State, while in the US the innovative capacity of the private sectors was partly able to compensate for a lower public action (that has in any case favoured indirectly the leading firms of the technological sector and productive firms through import duties). By contrast, the European Union – with the only exclusion of the temporary resources of the NGEU – provided many documents and proposals without the necessary public resources to implement them and with private sectors characterized by a low capacity to innovate.

[29] We recall that in 2012 the Nobel Peace Prize was assigned to the European Union. Pope Francis who used to talk about a "world war in pieces", emphasized that the war is always a defeat, and also Pope Leo XIV used the words "unarmed and disarming peace". Incidentally, it should be mentioned that a peculiar vision on an ideal functioning of the economic systems – especially for better workers' conditions and fraternal social relations – was developed by the Catholic Church's social doctrine, since the 1891 *Rerum Novarum* (Pope Leo XIII) up till the creation by Pope Francis (in 2019) of "The Economy of Francesco". A "World Fraternity Report 2025" was published to offer, on an annual basis, an empirical assessment of the state of "fraternity" within and across the world's countries, by using international datasets and developing an original indicator designed to capture how fraternity manifests, both inside each economy and in the relationships between them.

and geopolitical issues. Furthermore, the major contrasts between democracy and autocracy and between wealth and poverty remain, interacting strongly with the systemic differences of each economic reality. Moreover, studies on economic systems and the comparative approach continue to have significant policy implications and constitute a valuable basis for better understanding the economic and political rise and decline of nations in the global context.

In this paper we have also seen that world economic growth and the take-off of the "Global South" have not always been accompanied by improvements in income distribution (in fact, labor's share has been decreasing over four decades), causing the propagation of populism and nationalism. Moreover, liberal democratic regimes are decreasing – in number, population, and power – relative to autocracies; a new worrying feature refers to the recent attacks on the world economic order and on multilateralism. In addition, one of the consequences of the Fourth Industrial Revolution is that changes in the productive sphere may become increasingly incompatible with the existing sociopolitical system; a probable outcome could be a more authoritarian political system in which the government acquires more power to regulate large firms, to redistribute resources (also by means of non-market mechanisms), and to limit the participation of citizens in governance.

A more visible consequence of changes in the geopolitical sphere – that has already been apparent in the last two decades – is that the "globalization process", which has characterised world economic growth since the end of World War II, has been slowing down; this became evident at least since the global financial crisis of 2007–08 and, at present, we witness a sort of "slowbalization" (that was only exacerbated by the high import duties imposed by President Trump).

We also briefly discussed how the economic size and power of a country significantly depend on its demographic dimension and dynamics over time; on this crucial topic, some empirical evidence and UN forecasts have been presented. The well-known population decline and ageing will be a feature not only of the European Union but also – and probably even more dramatically – of China.

In the current situation, the European Union – which has encountered a long-run decline in economic and political power and has suffered because of the big shocks (from the Great Recession to the sovereign debt crisis, and to the pandemic crisis) to which it has responded, in the first two cases, in an ineffective and delayed way – still now is late compared to the US and even China, especially in the field of new technologies and their applications. While the short-run perspective foresees an increase in military expenditure (that, on the contrary, might possibly be contained if the EU rediscovers its abilities in diplomacy and the art of mediation), the EU should instead complete its long-run process of integration, through long-waiting institutional reforms (the change of the unanimity rule or at least a more frequent use of enhanced cooperation), making the monetary union (Eurozone) more complete[30], reducing the delays in research activities and implementation of new technologies, with the final aim of preserving and making more resilient its much-valued "European economic and social model." The European Union apparently is "in transition" and now faces a dramatic choice: either it speedily completes the integration process (thus supporting the old view that integration accelerates at times of crisis), or it risks a – perhaps slow but real – disintegration or absolute irrelevance.

In any case, Comparative Economics, thanks to the scientific contribution of many young and old economists, is still maintaining its high capacity to investigate complex economic and social systems, to detect the main features of uncertain (multidimensional and non-linear) dynamics, and to produce comprehensive policy suggestions.

[30] Despite the critical delays in adopting the necessary steps to complete the monetary union and make it more resilient to shocks (as discussed in Section 4), its vitality is confirmed by the slow but continuous process of enlargement. From the initial 11 members in 1999, the current members of the Eurozone are 21 countries (as of January 2026, Bulgaria also adopted the euro).

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