

Technology
Arts Sciences
TH Köln



Symposium

The Future of Europe in Turbulent Times

Thursday, 16 January 2024, 17:00-20:00
Meissensaal
50678 Köln, Claudiusstrasse 1

Institute of Global Business

& Society.

Escaping the Zero-Sum Trap?

The Future of Europe in the New Global Economy

Harald Sander

Jean Monnet Chair “Europe in the Global Economy” at TH Köln

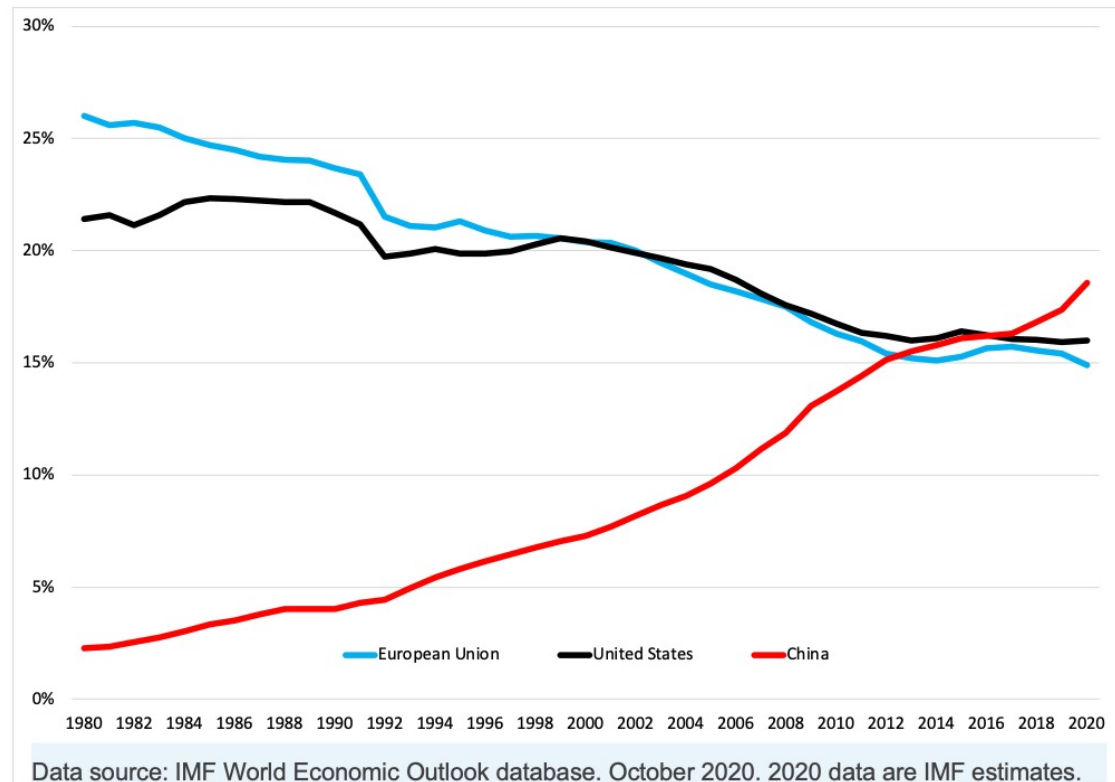
Europe at a crossroads: The challenges



Challenges

- Geopolitics:
 - Rising geopolitical conflicts (especially USA VS China)
 - Russia's war on Ukraine
- Europe's economic stagnation (relative to USA)
- The rise of populist nationalism and anti-EU sentiments

Shares in World GDP 1980-2020 (measured in purchasing power parity dollars)

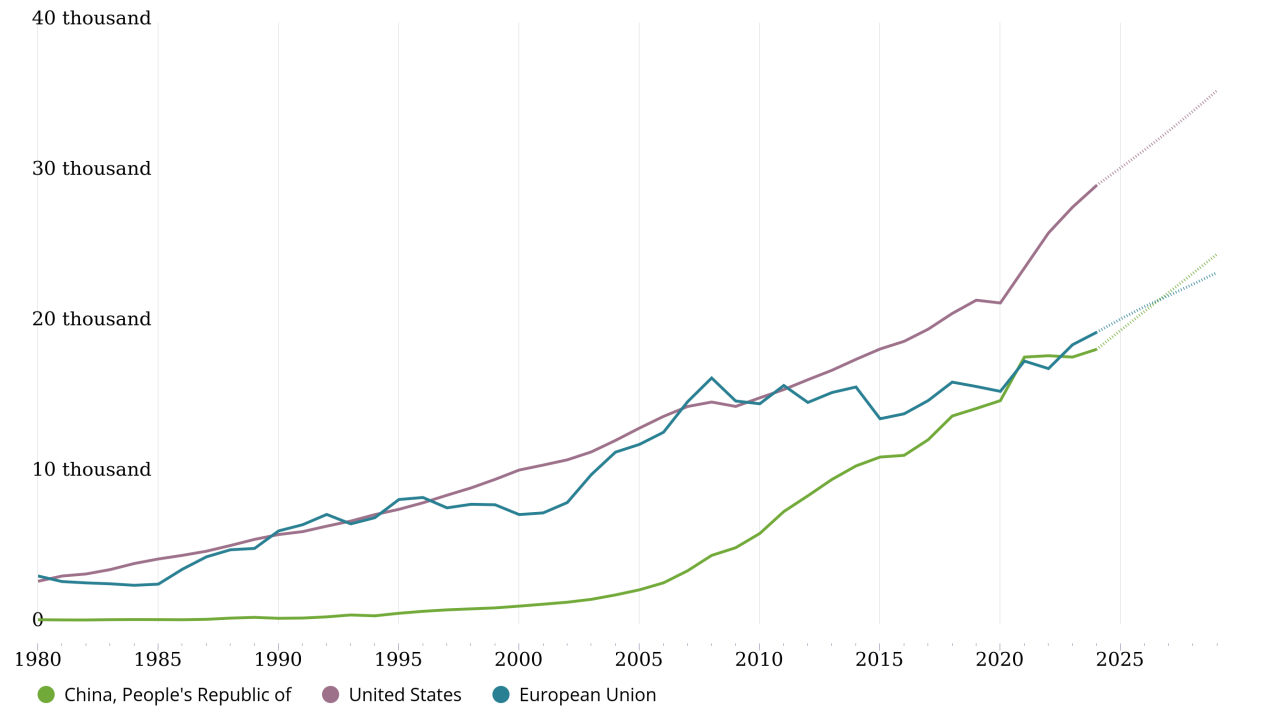


Source: Sander, H. Understanding the new global economy. A European perspective, Routledge 2022: 4

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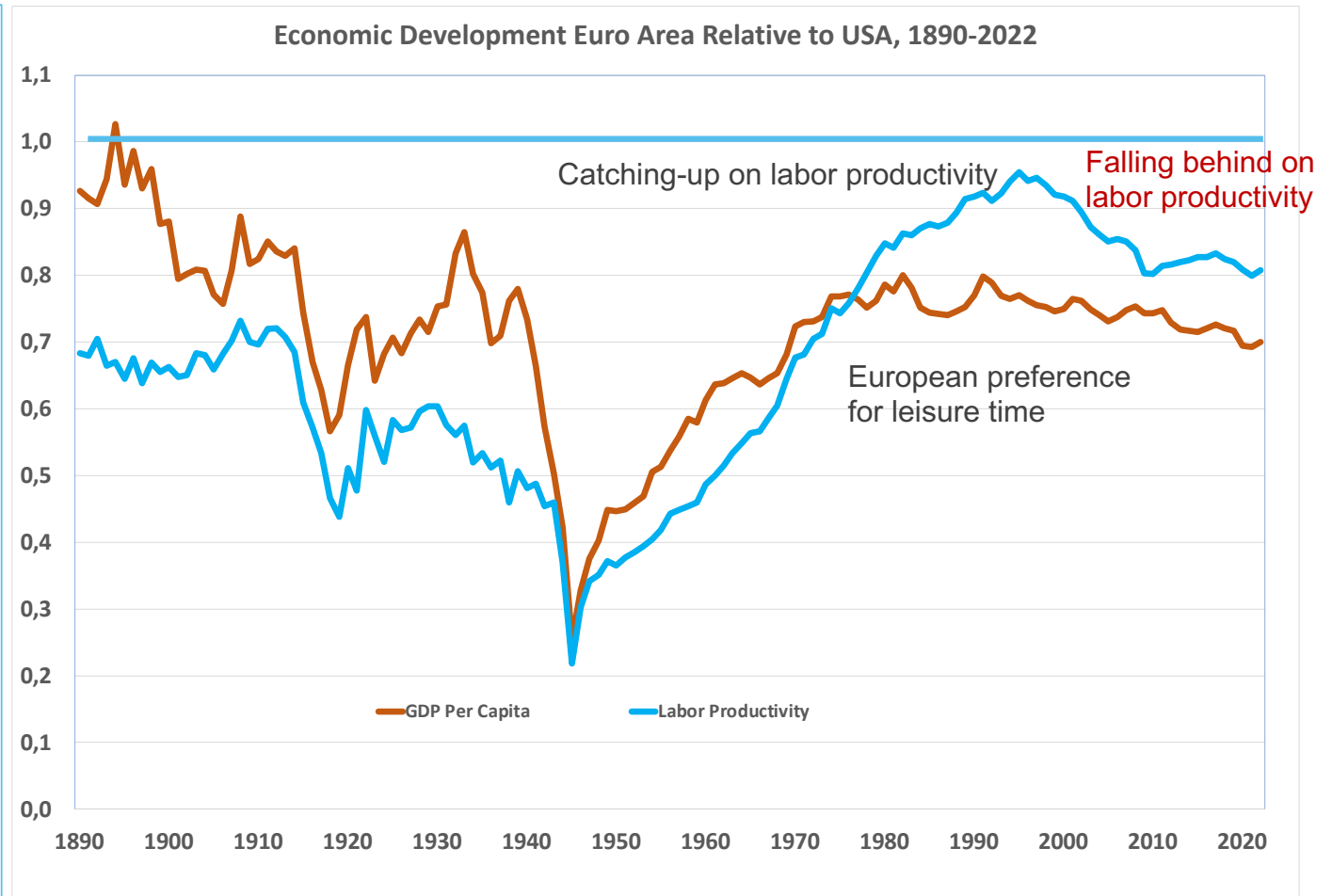
IMF DataMapper



©IMF, 2024, Source: World Economic Outlook (October 2024)

New Challenges

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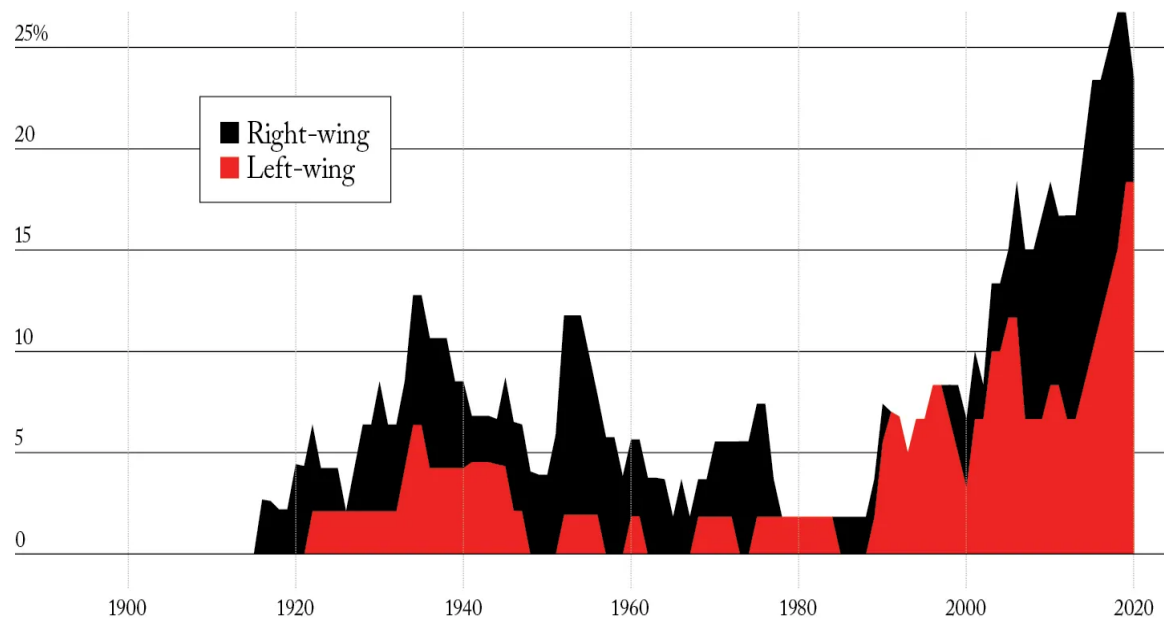
Data Source: Own calculations based on: Long Term Productivity Database A. Bergeaud, G. Cette and R. Lecat. www.longteermproductivity.com

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POPULIST EXPLOSION

Percentage of countries with populist leaders, 1900–2020



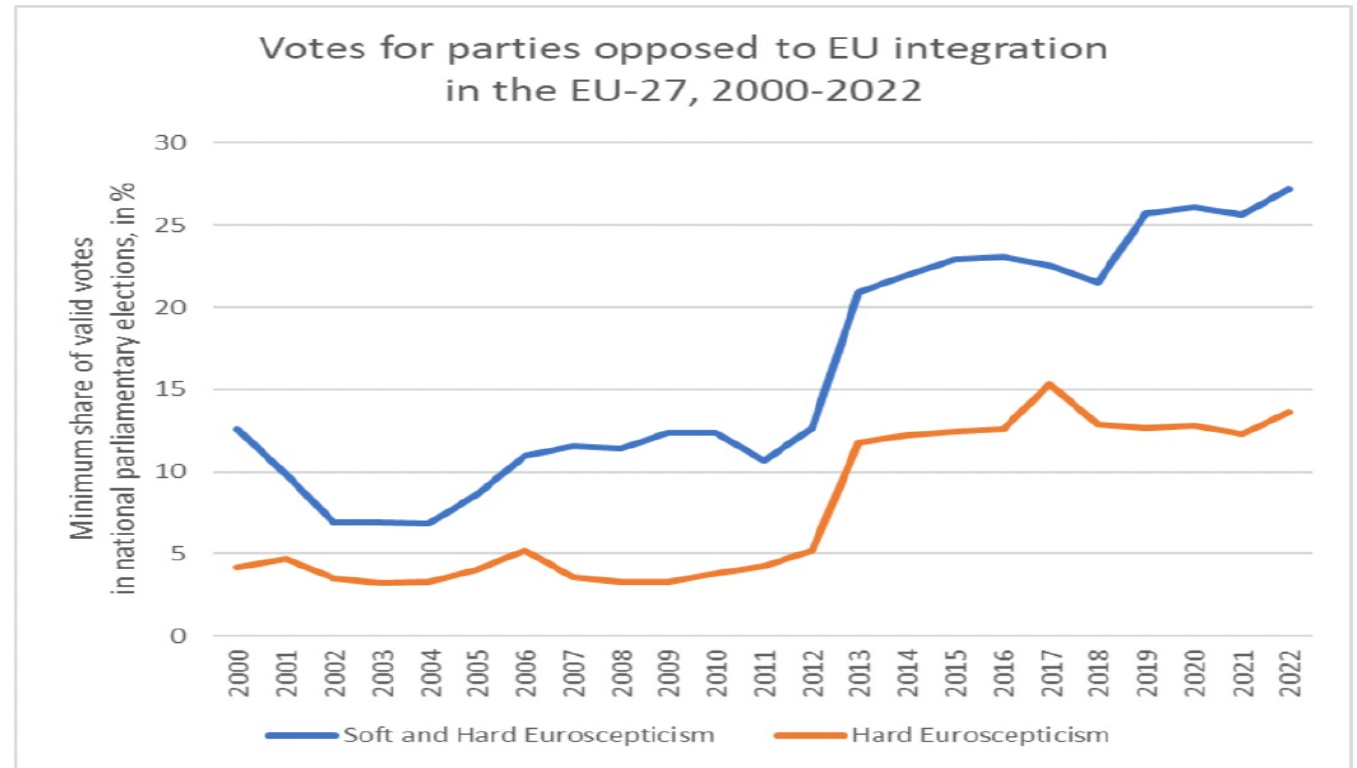
Source: Manuel Funke, Christoph Trebesch, and Moritz Schularick (2023). Note: 60 countries included in dataset.

Source of Graph: <https://www.foreignaffairs.com/world/populisms-broken-economic-promises>

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Figure 2. The rise of Euroscepticism in the EU



Source: [Rodríguez-Pose, Dijkstra & Poelman, 2024](#).

Source of Graph: Balland, P.-A., Renda, A. (2024). Europe must act now to bridge regional divides and halt political extremism. CEPS, September

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A Common Feature: A Zero-Sum Mindset

- Quest for dominance:
According to the "realistic school" of international relations countries are concerned with **relative power** rather than **absolute power**. (see Mattoo et al. 2024)
- Focus on "competitiveness"
- Nationalism: "Them" Vs. "Us"



WIN OR LOSE!

- "Our policies should make us **stronger than** country X". We care that our policy does not make the rival stronger.
- Example: USA-China: Quest for economic, technological & military dominance.
- Relative market shares, dominant market position, ...
- Trade surplus → new mercantilism
- "My country **FIRST**"
- "foreigners" take "my job", "our money"

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A European Win-Win Agenda

- Europe as a broker of a new multilateral Win-Win Agenda (especially with the Global South) in times of geopolitical conflict.
- Focus on productivity, i.e. on increasing the cake.
- Rebuild social cohesion via inclusive growth (focus on “We”).



Europe has plenty of unexploited chances for doing better at home, ...while probably being the only credible broker of multilateral win-win solutions left .

Short Agenda

- The rise and the relevance of the zero-sum mindset
- Zero-sum thinking and the new nationalist populism
- Draghi 2.0: A European win-win agenda?
- The way forward: Escaping the zero-sum trap

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The rise of the zero-sum mindset

- The expanding pie for the boomer generation: Economic growth after WWII to approximately late 1970s
 - Things got better every day, month, year: higher salaries, new gadgets, cars, holidays, - and most importantly - the children are likely to be better off than their parents, aka social upward mobility.
 - To improve standard of living, no redistribution was needed. ALL could be better off.
 - A win-win mindset favors cooperative behavior as it is seen as a source of mutual benefits.
- In the later years in the advanced economies growth slowed down
 - Win-lose experiences increase
 - Zero-sum mindset rises
 - Rise of support for non-cooperative behavior

See Chinoy, Nunn, Sequeira & Stantcheva, 2025. Zero-sum thinking and the roots of U.S. political differences. Presented at AEA Annual Meeting, January 2025.

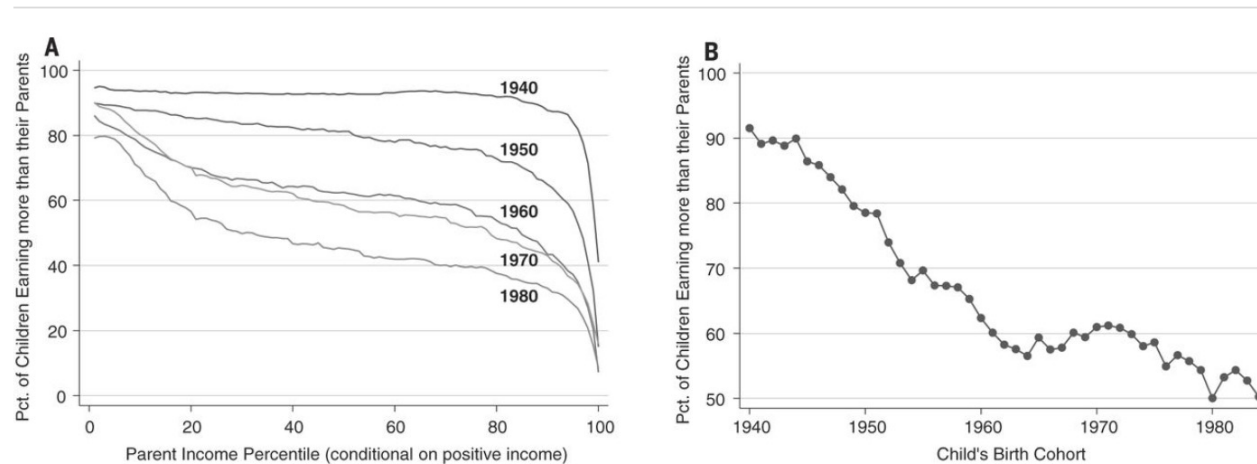


Fig. 1 Baseline estimates of absolute mobility by birth cohort.

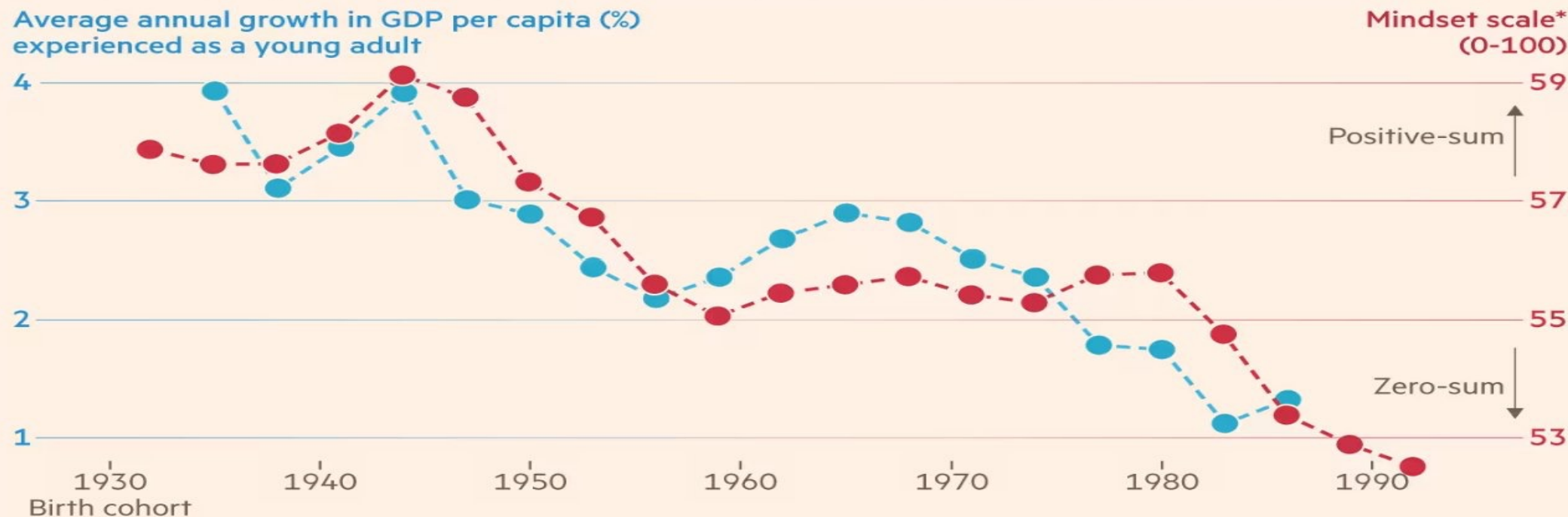
(**A** and **B**) The fraction of children earning more than their parents (“absolute mobility”) by parent income percentile for selected child birth cohorts (**A**) and on average by child birth cohort (**B**). Only parents with positive income are included in (**A**); within this group, parent income percentiles are constructed according to their ranks in the distribution of parents’ incomes within each child cohort. Parents with zero income are included in (**B**), defining absolute mobility as 100% for that subgroup when computing the mean rate of absolute mobility by cohort. Child income is measured at age 30 in the CPS March supplement as the sum of individual and spousal income, excluding immigrants after 1994. Parent income is measured in the census as the sum of the spouses’ incomes for families in which the highest earner is between ages 25 and 35. Children’s and parents’ incomes are measured in real 2014 dollars using the CPI-U-RS. Absolute mobility is calculated by combining these income distributions with the copula estimated for the 1980 to 1982 cohorts in tax data by (12).

Source: Cetty et al., The fading American dream: Trends in absolute income mobility since 1940, *Science* 356(6336). 398-406, <https://www.science.org/doi/10.1126/science.aal4617>

Older generations grew up with high growth and developed positive-sum beliefs. Recent generations have lived with low growth and are more zero-sum

GDP growth and prevalence of zero-sum thinking by birth cohort in high-income countries

Average annual growth in GDP per capita (%) experienced as a young adult



*100 = "Wealth can grow so there's enough for everyone"; 0 = "People can only get rich at the expense of others"

Sources: FT analysis of World Values Survey; Maddison Project database

Based on *Zero-Sum Thinking and the Roots of US Political Divides* (Chinoy et al., 2023)

FT graphic by John Burn-Murdoch / @jburnmurdoch

© FT

Source: Financial Times

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The correlates of a zero-sum mindset

- More support for more restrictive immigration policies
- More support for redistribution
- More support race- and gender-based affirmative action
- Zero-sum mindset favored Trump election in 2016

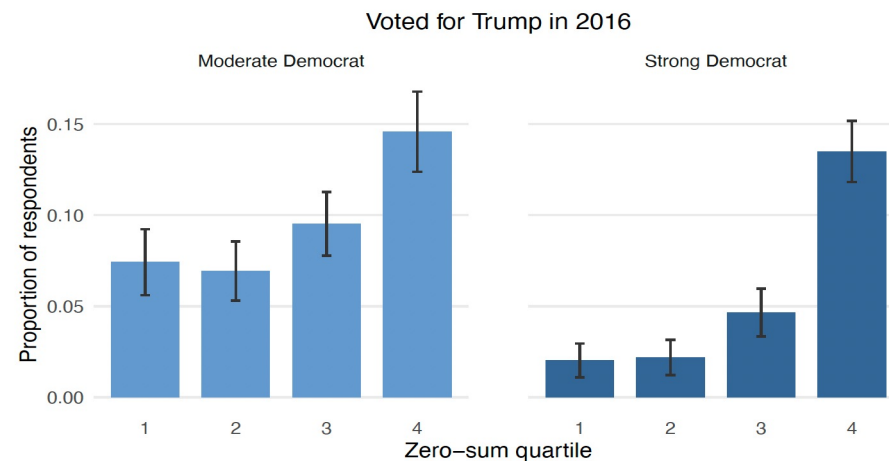


Figure 11: Democrats Voting for Trump by Zero-Sum Quartile

Notes: Vertical bars are 95% confidence intervals.

Source: Chinnoy et al. 2025

Based on: Chinoy, Nunn, Sequeira & Stantcheva, Zero-sum thinking and the roots of the US Policy Divides. Presented at the American Association Annual Meeting 2025.

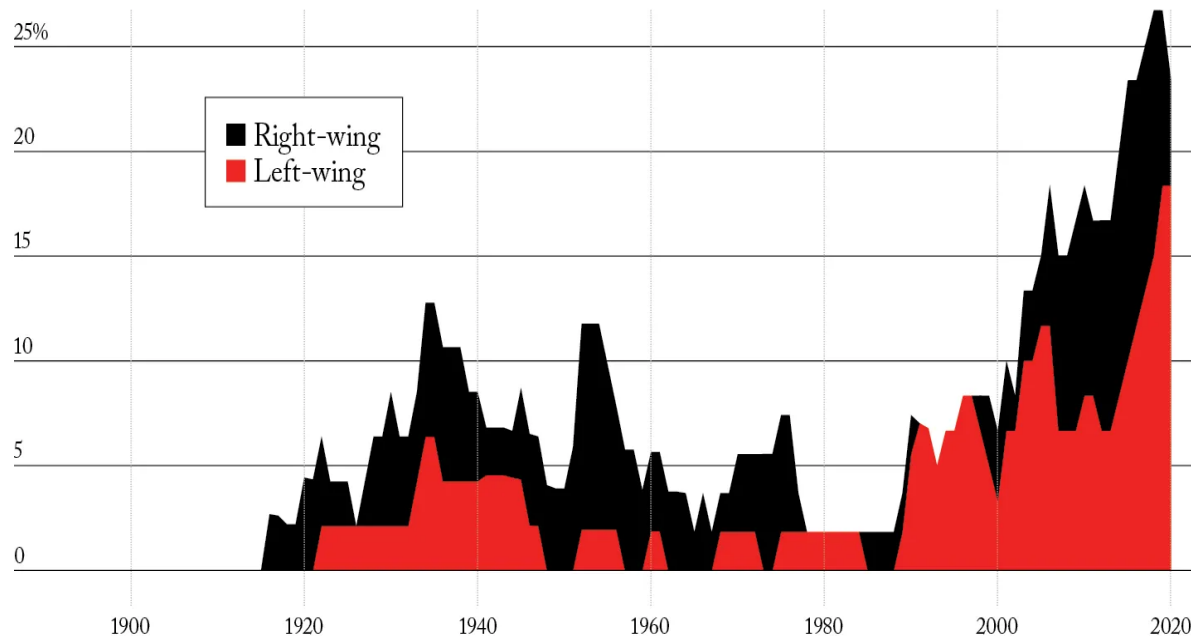
➔ **Populist zero-sum rhetorics: Is the zero-sum mindset a driver of the populist rise?**

What is Populism?

- Populism as an ideology that separates society in two **homogeneous, antagonist groups**: "the pure people" and the "corrupt elites" (Mudde & Kaltwasser, 2017).
 - No clear socio-economic preference (left and right populism)
 - "Pure People" are morally superior and thus have the moral right to govern.
 - Homogeneity: no space for pluralism, protection of minorities, divergent opinions, etc.
 - Anti-elite implies that populist need no "Check-and-Balances" as these are instrument of the corrupt elites.
- Minimum Consensus (Guriev & Papaioannou, 2022):
 - Anti-elite
 - Anti-pluralist

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Source of Graph: <https://www.foreignaffairs.com/world/populisms-broken-economic-promises>

- Classification based on parties having an “Anti-Elite” agenda
- Sharp increase after the Great Financial Crisis 2008/9
- Increase of right-wing populism with nativist tendencies.

Economic consequences of populism

➤ Short run: mixed results

mixed results – often negative, but also positive when combined with stimulus programs.

➤ Medium run: negative

substantially more negative economic development relative to a synthetic “Doppelgänger”

➤ Long run: very negative

Weakening of key institutions, like rule of law, “check and balances” leads to substantially lower economic growth with dramatic consequences only after many years.

(Based on Funke, Trebisch & Schularick, AER 2023)

Drivers of Populism

- “Culture” as a base
 - Culture is changing only slowly, so it cannot explain the sudden rise
 - But cultural values may form the base for left- versus right-wing populism...**activated by**
- **Economic losses and rising insecurity**
 - **Financial crisis** have historically triggered in particular the rise of right-wing populism as “rescue of banks” supports the view that “elites” will always get away (see: Funke, Schularick & Trebesch, 2016).
 - **China Shock** (especially in Southern Europe and the USA: D. Autor et al. 2016: permanent income losses for workers in the rust belt)
 - **Austerity policy** (especially in UK, southern Europe in/after the Euro crisis, but also in other EU countries)
- Immigration as trigger?
 - Reality versus perception
 - People often directly compare living condition with immigrants & regional concentration
- Media (old and new) as amplifiers
 - Algorithms
 - “Political Entrepreneurs“

Why do people vote for populists that do harm to them?

- One interesting answer (next to misinformation, lies etc.) is that populists exploit the zero-sum mindset by means of their “pure people” – “corrupt elites” antagonism: Zero-sum thinking implies “when elites win, the pure people will lose”, i.e.,
- **”The enemy of my enemy is my friend”**
 - Experiences often confirm that elites are “my enemies” (e.g. bank rescues, offshoring, etc.)
 - Promises to compensate losers of globalization have often been broken.
 - Voters hope for improvements when self-styled representatives of the *real people* win.
 - If voters are not fully informed, they interpret the “anti-establishment” behavior of populists (even when grotesque) as a signal that a policy will be in their favor.

Based on Ali, Mihm & Sega (2024). The political economy of zero-sum thinking, <https://doi.org/10.48550/arXiv.2409.15946>

Why are populists anti-globalization and anti-EU?

- Shocks coming from globalization are perceived differently than other shocks (new technologies, changes in demand, the decline of union power, etc.), even when the results are the same, i.e., job losses.
- It is globalization shocks that play a causal and substantial role for the rise of right-wing political movements. (Rodrik 2024)
- A **perception of unfairness** plays a key role in this:
 - If my job is taken by somebody else at home, e.g., by somebody working for a another domestic company, it is accepted as a fact of life.
 - But when it depends on a transaction with a company that operated under different rules, it is perceived as unfair.
- Wish for national self-determination (often flawed in an interconnected world)
- Activation of deeply rooted cultural prejudices.

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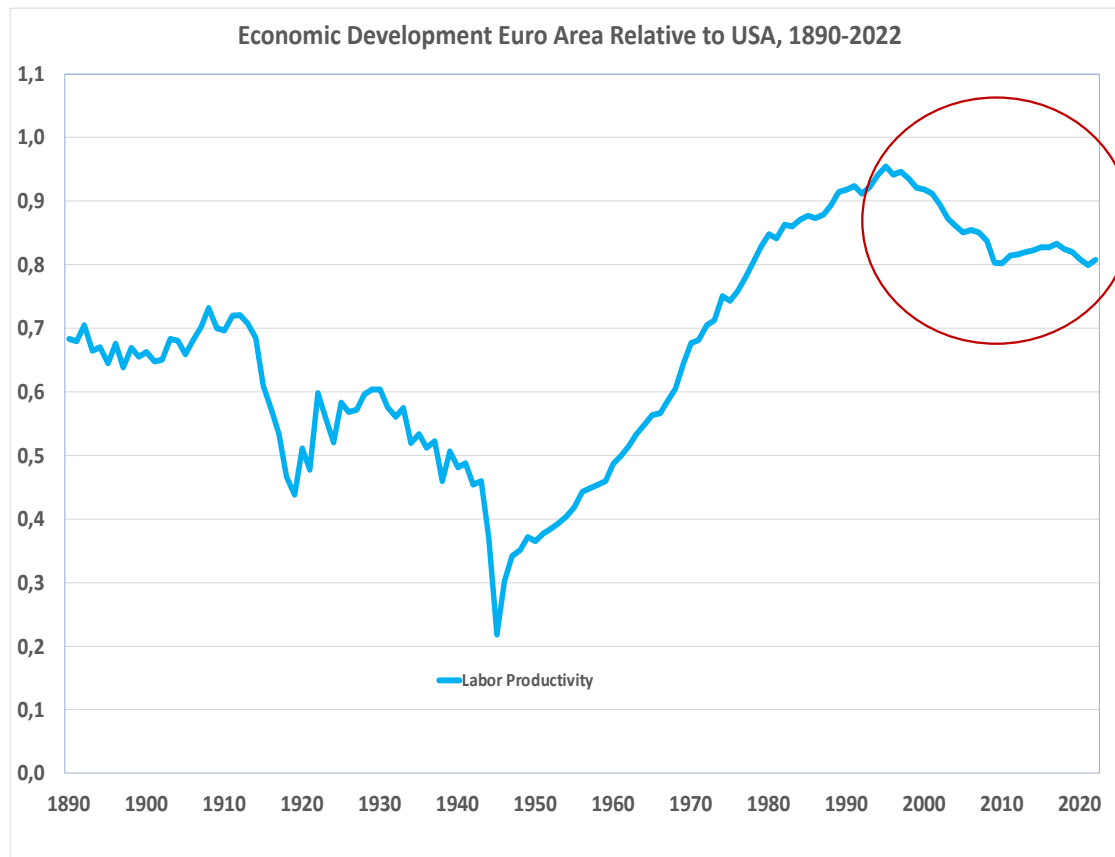
How can Europe respond to the challenges?

Mario Draghi (2024): Europe has the choice between exit, paralysis and integration.

- **Exit** has been tried and has not delivered what its proponents hoped for.
- **Paralysis** is becoming untenable as we slide towards greater anxiety and insecurity.
- So, **integration** is our only hope left.

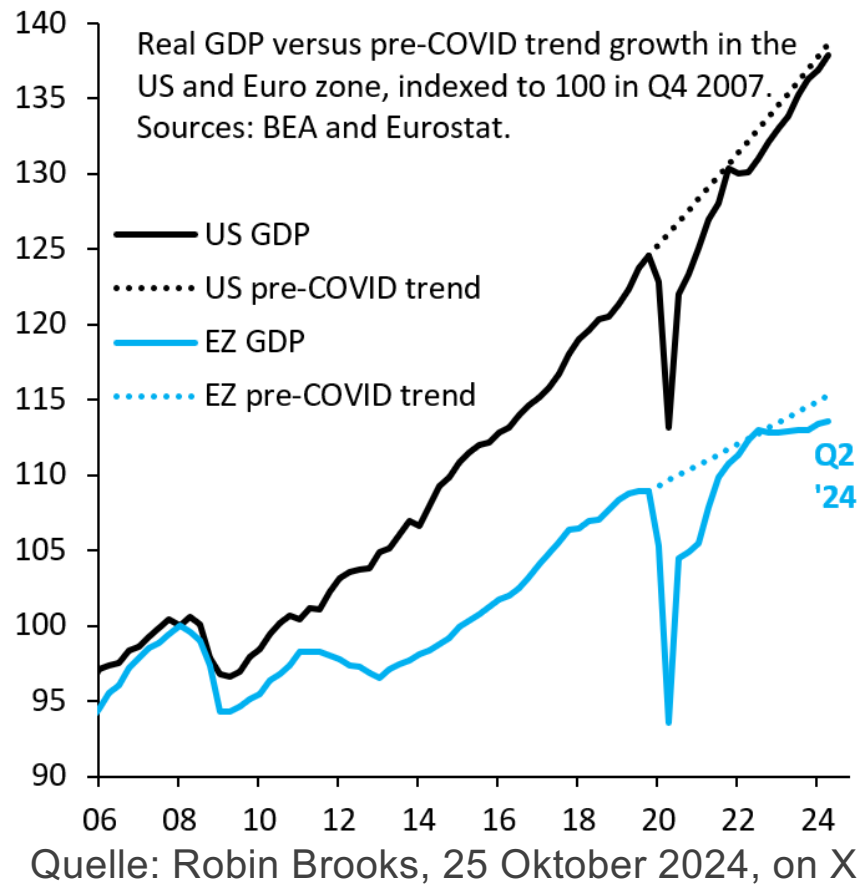
Text taken from Address by Mr. Mario Draghi at the presentation of the report on the Future of European Competitiveness in the European Parliament, 17 September, 2024.

Diagnosis I: Falling behind in labor productivity



- The relative fallback starts in the 1990s.
- It is concentrated on
 - Production of ICT technology goods
 - Using ICTs
- In other industries, Europe is still at par with the US (Draghi 2024a: 23)
- Hence, the EU's core problem is competitiveness in new technologies.

Diagnosis II: Inadequate responses to crises

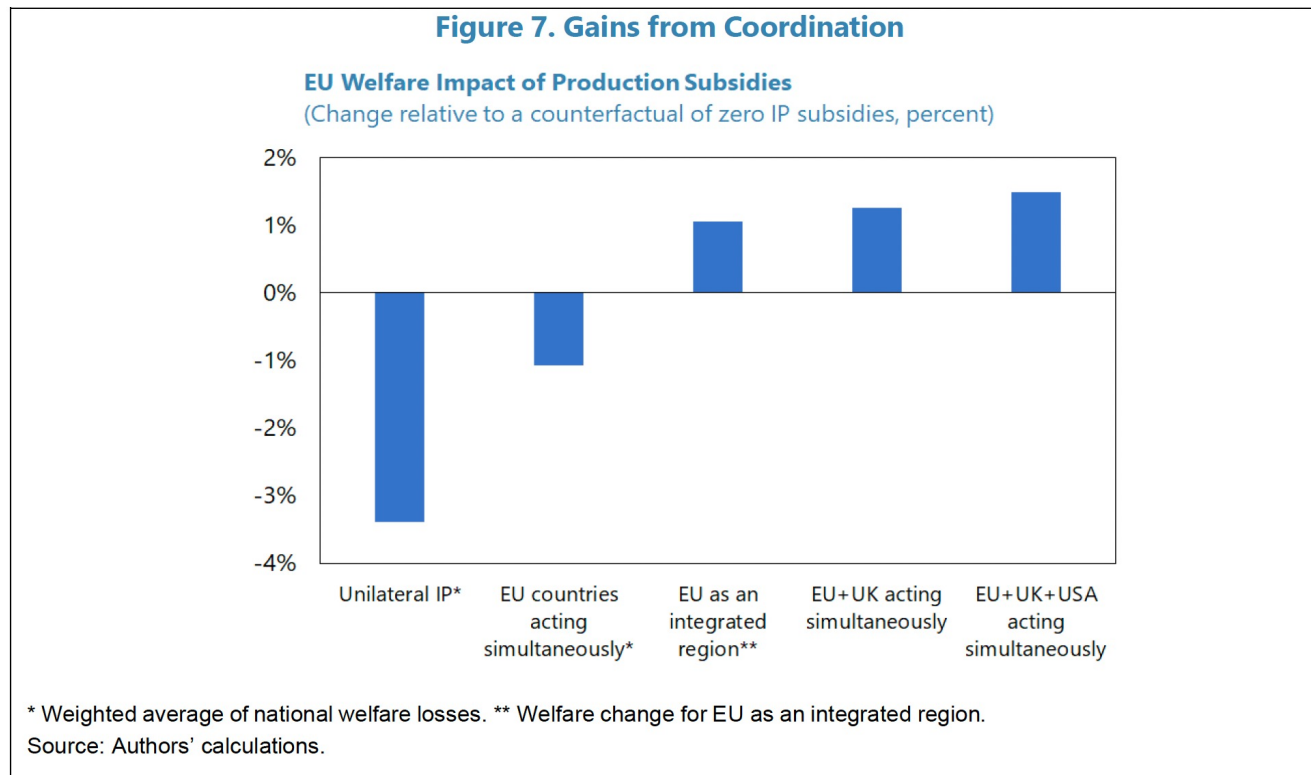


- Decoupling from US recovery after 2009
 - Great financial crisis (GFC) 2008/9
 - Euro crisis 2011/12
 - Covid crisis 2020
- No adequate policy responses to crises:
 - Quantitative (GFC, Covid)
 - Qualitative (Euro crises)

Four core elements of a new industrial strategy (according to the Draghi Report)

- **Completing the EU single market**
 - Currently internal barriers are estimated at an equivalent of an ad valorem tariff of about 45 % in manufacturing and 110% for the service sector, three times as high as in the US (IMF 2024)
 - [capitalize on economies of scale](#) → win-win!!
- **Integrated industrial, competition and trade policy**
 - Joint approach of all member states instead of individual member states policies that compete with each other ([cooperation is win-win](#))
- **Massive increase in investments** (+5 percentage points of investment quota), especially
 - Provision of [joint public goods](#), e.g.. energy networks, super-computing European infrastructure, defense, etc.
 - Incentives for private investments
 - Better finance via EU-wide Capital Market Union for unicorns and CMU new technologies start-up where finance needs to be scaled-up fast ([win-win integration](#))
- **EU Governance reform (more on this later)**

In Europe, policy cooperation is win-win, too!



Source: Andrew Hodge et al. (2024). Industrial Policy in Europe: A Single Market Perspective. IMF Working Paper 24/249

The key role of finance and the Euro

- **Integrating Europe's capital markets** to channel high household savings towards productive investments is essential. (Draghi 2024a: 14).
- Financing projects that aim at joint objectives (European public goods): “If the political and institutional conditions are met, these projects would also **call for common funding**” (Draghi 2024a: 14).
- **Creation of a European “Single Safe Asset” (SSA)**
 - A SSA allows banks to reduce the holding of national bonds, which made the banks vulnerable in times of sovereign debt crisis (“doom loop”).
 - More stability for the European banking system and the Euro.
- A step towards the **Euro as an alternative global currency** to the U.S. dollar?
 - US Treasury Bills are globally attractive and provide the USA government with substantially lower funding costs via the so-called “Convenience Yield”
 - According to a recent study, this increases for the USA the “maximal sustainable debt” by 22 percentage points of GDP. (<https://cepr.org/voxeu/columns/exorbitant-privilege-and-sustainability-us-public-debt>)
- A **completion of the currency union** in this sense could ease the financing of the enormous tasks in time of geopolitical disruptions considerably.

Draghi 2.0: Not your (neoliberal) father's EU anymore

- The call on capitalizing on “more Europe” is partly a classic call for **win-win strategies**, and partly a call to **react to non-cooperative behavior** of third parties (geopolitics).
- It may establish a new policy agenda that departs strongly from the “Maastricht mindset”.

The Maastricht Mindset EU	Post-Maastricht Agenda
<ul style="list-style-type: none"> • Single Market • Joint trade and competition policy • National industrial policy agenda within the EU rules • Focus on “competitiveness” even within Europe • Single currency (without any risk sharing components) • Capital Market Union (incomplete, not seriously pursued so far) 	<ul style="list-style-type: none"> • Completing the single market (also formerly areas of “national interest” like electricity, telecom, logistics..) • Integrated industrial, competition and trade policy strategy • Joint (coordinated) industrial policy strategy) • Focus on resilience and protection of core industries against 3rd countries. • Joint financing of European public goods • Single Currency PLUS <ul style="list-style-type: none"> • Full Banking Union (especially joint deposit insurance) • Single safe asset (joint borrowing for financing EU public goods) • Capital Market Union as key element

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The way forward: Escaping the zero-sum trap

- The thrust of this lecture is that Europe and the EU can and should set explicitly a European win-win agenda.
- This is not to say that Europe has in some cases to face hard geopolitical and uncomfortable trade-offs, e.g., by paying a price for increasing resilience by relocating strategical crucial production at home.
- However, Europe has plenty of unexploited changes for doing better at home, while being the only credible broker left to push for mutually beneficial multilateral solutions.

More Europe versus anti-EU Sentiments: Winning support for win-win strategies against a zero-sum mindset

- Input legitimization: Towards a more democratic and accountable Europe
 - Reform of EU governance via changing EU treaties is a thorny, long run process
 - Rebalancing Europe:
 - “**More Europe**” in areas where win-win integration is crucial to increase productivity (single market, public goods, CMU, etc.):
 - In case some member states are not willing to cooperate in essential areas, consider to have “**coalitions of the willing**” to go ahead (variable geometry) if it does not have negative spillovers to others (Eichengreen 2017)
 - E.g., The Nordic-Baltic 6 could take a lead in creating a CMU und a 28th Regime for Corporate Law, as suggested by Martin Sandbu, FT, 6 October 2024)
 - “**Less Europe**” In areas when decisions can better be taken at the national and regional level
 - More closely reflecting the preference of people (taking the subsidiarity principle serious)
 - Less EU regulation, avoid double regulation
 - Multi-tier Europe” where EU parliamentarians only vote on the issue in which their country is involved, e.g. Schengen, single currency, etc. (Eichengreen 2018)
 - More direct participation at the national, regional and local level (e.g. Citizens’ councils)

More Europe versus anti-EU Sentiments: Winning support for win-win strategies against a zero-sum mindset

- Output legitimization: the EU must deliver for all people ([win-win](#))
 - [Inclusive, broadly shared prosperity](#) as key objective of EU.
 - It needs more productivity → Draghi 2.0
 - The productivity increases must be shared broadly. But how?
 - Traditional approaches:
 - Pre-production: Education, human capital, affirmative action, etc. → pursued, but results not always as positive as expected.
 - Post-production:
 - Classic welfare policy (safety net)
 - Active re-distribution policy
 - Good and well-paid jobs are the foundation of shared prosperity. (see Rodrik & Stantcheva 2021). Safety nets and re-distribution alone will not be sufficient and on their own they risk to create a two-tier society (see Daron Acemoglu on X, 14.1. 25)
 - New approaches directly at the production level:
 - "Good jobs strategy" especially in service industry (Rodrik)
 - Supporting technologies that empower workers rather than replacing them.
- Europe needs to develop it's own tech vision. It was always good at putting new technology to good use. This can become the antidote to the US tech bros vision of labor-replacing technology and AI, and offers a better model for development.

“Shared prosperity cannot be achieved just with redistribution. It needs to be rooted in the labor market, in (good) jobs and in wage growth. The safety net and some amount of redistribution are important. But these are not sufficient to generate shared prosperity.”.. This is important to avoid heading “towards a truly two-tier society with just some fraction of the population flourishing economically and receiving all the social status as they are the source of all earnings and tax revenues out of which others are receiving redistribution.”

Daron Acemoglu on X (14.1.25)

Europe as broker of global win-win solutions

- Europe should take the vacant position of a benevolent broker of **mutually beneficial international cooperation**. Key areas of action are:
- Making the WTO fit for times of geopolitical conflicts (see Mattoo et al. 2024):
 - GATT was created to avoid harmful beggar-thy-neighbor trade policies
 - WTO concentration on "core business" of trade rules, rather than deep intrusive internal policy rules
 - In times of geopolitical conflicts for new rules are needed to still allow for beneficial cooperations.
- Critical co-operation instead of confrontation with China:
 - Cooperation on climate policy
 - Co-financing of „green transition“ in the Global South, also by means of joint debt reduction initiatives
 - Cooperation to avoid direct trade conflicts
- New, honest and credible relations with the Global South

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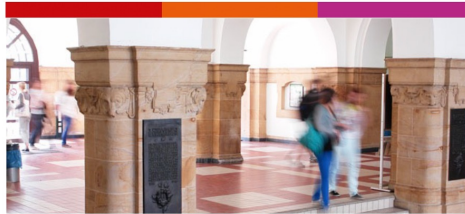
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”

Will Jean Monnet’s “Europe is forged
in crisis“ hold in times of polycrises?
Will the EU ”do whatever it takes“?
And “will it be enough”?



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Thank You!
&
Let's stay in touch!!

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