

# THE GROWTH PATH EUROPE HAS YET TO CHOOSE



## EUROPE DOES NOT HAVE TO ABANDON ITS DISTINCTIVE

social model to grow, but it does have to grow to maintain it. The challenge is whether its leaders can rise to the occasion and build support for the trade-offs that accelerated growth requires.

Europe's economic future can be strong, and its social model can still be preserved. Its scientific base and skills pool, spread across both European Union (EU) and non-EU economies, are assets many regions cannot match. Capital is available and institutional frameworks such as the General Data Protection Regulation (GDPR), while arguably imperfect, underpin key European values.

A more dynamic, innovative Europe that retains its social protections and distinct regulatory identity is achievable, but the continent's leaders have yet to be explicit about how it could be funded, and which trade-offs voters would be asked to accept as the costs of population ageing, defense, and debt servicing grow and productivity gaps tighten.

Beyond a handful of smaller European economies, leaders have largely avoided making those trade-offs clear. Credible visions of the future need to define which social protection programs remain affordable, which need redesign or cessation, and the implications of changes to society. Instead, much of European politics continues to dodge these difficult choices.

They are becoming harder to avoid. Policymakers need to determine which welfare commitments remain sustainable under demographic and fiscal pressure, how burgeoning immigration could contribute to labor supply and the tax base, and where investment must be prioritized alongside social spending adjustments when fiscal capacity is limited.

In 2026, those questions are no longer abstract. They are already shaping outcomes in at least two parts of the economy, AI and life sciences, that will do much to

determine whether Europe leads or follows the world's future economy.

In May 2026, despite the AI Act's core high-risk obligations being due to take effect in August, Brussels delayed implementation until 2027-28 under pressure from Washington and US technology firms. In doing so, it weakened a framework intended to be a strategic differentiator before it had been fully implemented. Europe's pharmaceutical champions Roche, Novartis, AstraZeneca, GSK, and Sanofi have already redirected roughly \$170 billion of forward R&D and manufacturing to the US. These are two examples of how regulatory uncertainty and capital market pressures are pushing Europe behind.

While Europe has made important advances in AI regulation, it has been less successful in creating the conditions needed to build globally competitive AI businesses. The GDPR, which underpins European values and consumer trust, should remain. However, duplicative compliance requirements that penalize scale need to be streamlined much faster. Also, if AI infrastructure remains primarily foreign-owned, much of the power to shape the sector's direction will continue to reside elsewhere. This will create growing economic and security challenges to Europe's sovereignty.

A similar tension is visible in European life sciences innovation. Recent analysis by L.E.K. Consulting shows that Europe leads the US in terms of generating research output, but lags in bringing products to market. Yet between 2015 and mid-2025, EU biotechs raised only €25 billion in venture capital against €219 billion in the US, and 66 of 67 European biotechs that listed over the past six years did so on foreign exchanges.

Even once approved, new medicines take a median 532 days to reach European patients. Europe also lags in company maturation: US-headquartered small →

→ biotechs independently launched more than three times as many drugs as European biotech peers from 2018 to 2024. Frustratingly, securing the EU's European Medicines Agency (EMA) and the UK's Medicines and Healthcare Products Regulatory Agency approval for a new drug requires separate national reimbursement negotiations in each major market, often adding years between approval and commercial return.

Europe's response should be to drive greater investment while streamlining regulation. While biotech, defence, and energy systems are clear targets, Europe can also focus on semiconductors and AI compute infrastructure as key areas for future growth. A genuine capital-markets union combined with coordinated public-private investment frameworks (notably for biotech, energy and defense) could generate visible returns in jobs and strategic resilience while expanding the tax base that sustains the social model. Particularly in biotech, harmonizing EU reimbursement and health technology assessment processes, alongside delivering on the proposed Biotech Act so that a single EMA approval translates into full EU market access without 27 separate national negotiations, would yield substantial benefits.

Labor-market reform and an explicit immigration compact tied to skills and demographic need would become more defensible to Europeans if accompanied by an economic and investment agenda producing visible

results. Many of Europe's policymakers understand the changes required to attain substantial economic growth. What is lacking is bold leadership at the top willing to frame those changes in compelling and honest terms that voters can embrace.

In the absence of such bold leadership, the risks of deferral are growing. EU age-related spending already absorbs about one-quarter of GDP, the old-age dependency ratio is set to climb from 46% to 70% by 2070, and in France debt-servicing costs alone are rising from €36 billion in 2020 to €59 billion in 2026. Germany's open-ended defense spending far exceeding that of both France and the UK will bring additional debt pressure. The costs and benefits of reforms do not fall on the same people, nor arrive on the same timetable. Without effective leadership, voters respond by backing political movements that reflect personal concerns, further fragmenting debate and making consensus harder to deliver.

Europe needs a more consistent and credible case for growth, one that explains how investment and competition are foundational in maintaining social protection, and how both the burdens and benefits of reform must be shared fairly across society. The perceptive leaders who make that case clearly will find more political support than current debates suggest. ■

#### ABOUT THE AUTHORS

**BEN FAIRCLOTH** is Head of Europe and a Global Board member at L.E.K. Consulting, where he advises corporate and investor clients across healthcare on strategy, growth, market entry, and transactions.

**FEROZ SANALLA** is Managing Director and Partner in the GCC region at L.E.K. Consulting, where he leads the Private Equity and Corporate Finance function.

