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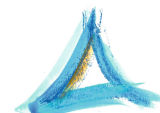
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# Stable or stagnant? Political economy and governance in the United Kingdom, France, Italy and Germany since 2000

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## Abstract

At the beginning of the twenty-first century, the large democracies of Western Europe experienced some of the most prosperous and peaceful decades in human history. Specifically, the United Kingdom, France, Italy and Germany experienced high and stable quality of life, democratic accountability and state capacity between 2000 and 2019, according to the 2022 Berggruen Governance Index. While all four of these countries are among the top performers in the Index, substantial problems lurk beneath the surface. Notably, each failed to capitalise on the low interest rate environment in the decade following the global financial crisis of 2007–2009—albeit in different ways and for different reasons in each country. In particular, low investment in infrastructure and key technologies, the persistence of stubborn regional inequalities, and resulting sluggish GDP growth have prevented the ‘Big Four’ in Western Europe from improving further and future-proofing their existing gains.

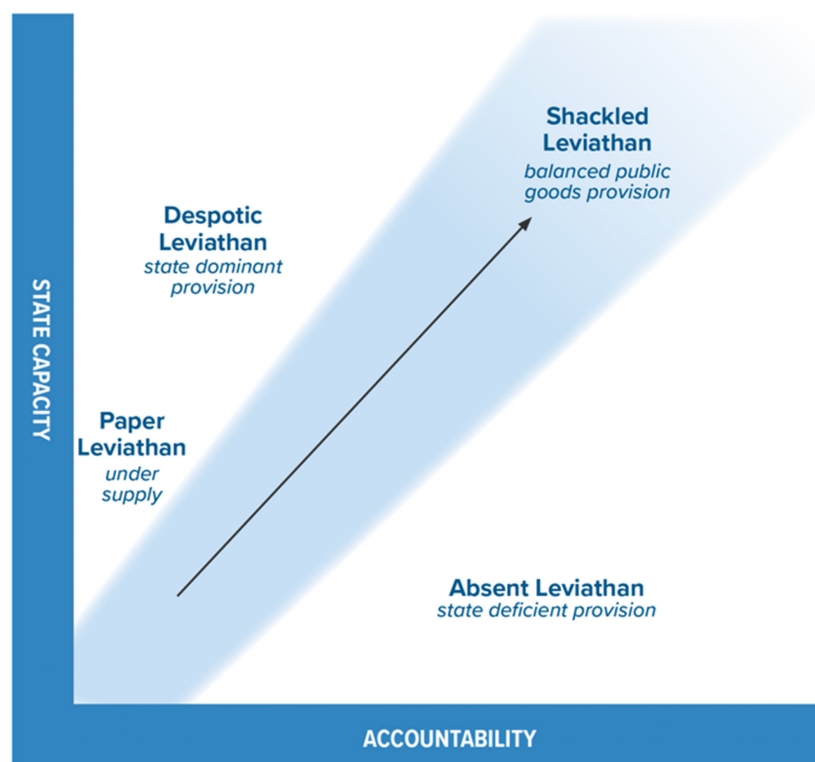
## 1 | INTRODUCTION

The last several decades in the large democracies of Western Europe have been some of the most prosperous and peaceful in human history. In the United Kingdom, France, Italy and Germany, the years between 2000 and 2019 were characterised by high and stable quality of life, democratic accountability and state capacity, according to the 2022 Berggruen Governance Index (BGI).<sup>1</sup> While all four of these countries are among the top performers in the Index, problems lurk beneath the surface, and each has failed to capitalise on a moment of opportunity after the global financial crisis of 2007–2009. By exploring findings from the BGI and other key economic indicators, we can identify three main causes of this stagnation: low investment in infrastructure and key technologies, the persistence of stubborn regional inequalities and sluggish GDP growth. Together, these can result in aggravated political tensions by creating the perception of a zero-sum economic environment (Stewart et al., 2020).

As detailed in the 2022 Berggruen Governance Report (Anheier et al., 2022), there exists a ‘narrow corridor’ between democratic accountability and state

capacity that—in the long run—typically allows for the optimal provision of public goods.<sup>2</sup> Within this corridor, we find the ‘shackled Leviathan’ in which the state is bound by rules and regulations and respects society, and the citizenry avails of strong institutions and voice, complains if the state becomes too dominant and enjoys the benefits of ample, high quality and equitably distributed public goods such as basic medical care, food security and clear air.

France, Germany, Italy and the United Kingdom all fall squarely into the fortunate category of ‘shackled Leviathans’, moving along the narrow corridor (see Figure 1), with scores on all three indices among the highest of the 134 countries covered by the 2022 BGI.<sup>3</sup> While strong performance is commendable, it does not mean that the wealthy Western European countries are infallible. Indeed, the recent COVID-19 (Nakagawa et al., 2020) and energy crises in Europe have revealed the fragility of even rich and well-governed democracies. While keeping in mind the overall strength of these countries, this article examines the flaws and lurking risks in the United Kingdom, Germany, France and Italy. Overall, we find that stable and high levels in the indices—with little to no



**FIGURE 1** General description of the narrow corridor of good governance. *Source:* Berggruen Governance Index 2022.

improvement since 2000—reflect both strong governance performance in Western Europe and a failure to capitalise on the low interest rate era to invest in civic and physical infrastructure and better prepare for the future.

Without ignoring the strong results of the four countries, this article seeks to go beyond the surface of the high appraisal France, Germany, the United Kingdom and Italy receive from the BGI and other indices (The Economist Intelligence Unit Limited, 2021; World Bank, 2023), instead exploring the sources of recent stagnation and potential threats to future governance. In particular, we find three trends that are present in all four countries, although to differing degrees.

First, low levels of productive investment, especially in key technologies, have hampered governance performance and the potential for long-term prosperity and economic resilience. For example, since 2000 the economic growth rate in Europe has trailed that of the United States by a full half-percentage point,<sup>4</sup> and few of the largest and most innovative technology firms are currently headquartered in the European Union (EU). Next, stubborn regional inequalities threaten high-quality governance by undermining democracy, economic growth and social cohesion. In all countries discussed in this article, disparities between the rich and poor areas of the countries are stark, with wealth concentrated in the UK's south, Italy's north, France's Île-de-France (Paris area) region and, to a lesser extent, Germany's major cities,

particularly in the south and west. These disparities fuel political resentment, with right-wing populists in particular often performing strongly in economically deprived regions (Broz et al., 2021). Finally, sluggish productivity growth both reflects and exacerbates existing governance challenges. In countries with a GDP per capita that is not growing (or is only growing slowly), competition over the distribution of fixed resources intensifies, stoking political conflict (Jones & Matthijs, 2017). In turn, this political conflict can limit forward-looking policymaking, exacerbating the economic strains that contributed to the political dysfunction in the first place.<sup>5</sup> Furthermore, low growth can limit the state's resources to build long-term resilience, such as preparing for pandemics, climate change, infrastructural challenges and social and economic crises. This lack of preparedness can then aggravate political divisions, again risking a vicious cycle.<sup>6</sup>

This article outlines the impressive success stories of the four largest Western European economies and highlights the governance challenges ahead. The next sections provide first an overview of the scores of the BGI across all three indices in the four countries, examining notable trends, and then discusses the recent history of each country, analysing the effect that economic reforms—or lack thereof—have had on their economies and governments. The following three sections explore the main challenges our analysis has identified in detail. The concluding section offers potential pathways and policy solutions for the four countries.

## 2 | GOVERNANCE PERFORMANCE IN THE UNITED KINGDOM, GERMANY, FRANCE AND ITALY

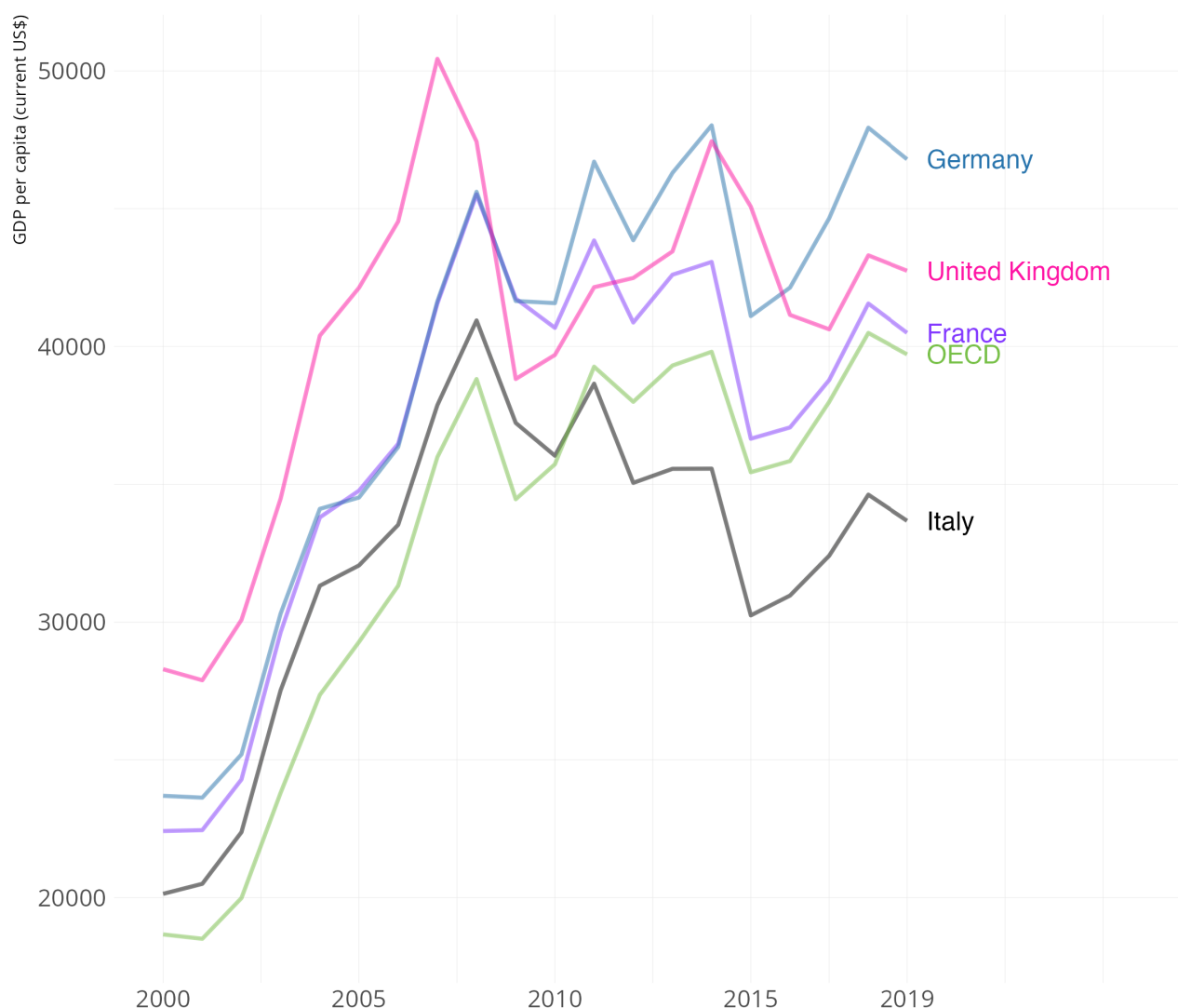
The United Kingdom, Germany, France and Italy all began the twenty-first century in a relatively strong economic position, each with a GDP per capita between US\$20,000 and US\$30,000 (see [Figure 2](#)). This high level of economic performance was accompanied by solid governance scores in nearly every field (see [Appendix A](#)).

In the United Kingdom, state capacity stayed roughly constant from 2000 to 2019, dropping slightly from 86 to 84 (see [Figure 3](#)). This was the result of a small drop in fiscal capacity (50–46) and delivery capacity (89–87), with coordination capacity holding constant at 89. Democratic accountability was the same (89) at the beginning of the period as at the end, with small deviations in the subindices balancing each other out. As seen in [Figure 4](#), public goods provision increased

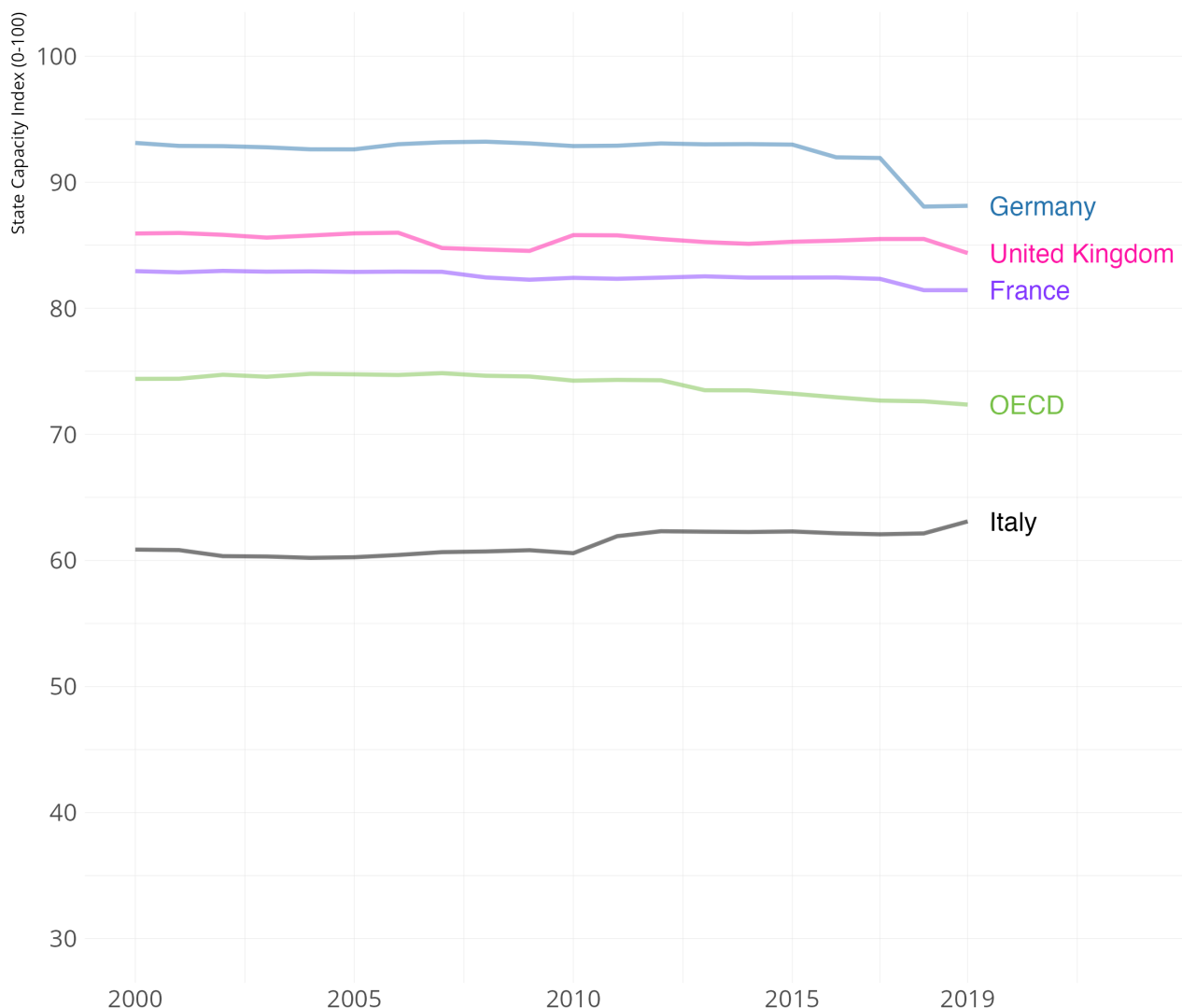
slightly, from 89 to 91, again with very small changes all balancing each other out.

Germany experienced a 5-point drop in state capacity, with a 10-point decline in delivery capacity driving the overall drop (the other two subindices were roughly the same at the beginning and end of the period). This decline occurred after 2016, perhaps as a result of the strains of low investment and austerity following the Eurozone crises of 2011–2015. Democratic accountability dropped by four points, from an almost perfect 99 to 95, with a 6-point decline in societal accountability responsible for most of the decline. Public goods provision increased from 86 to 95, led primarily by an increase in social public goods, which rose from 82 to 93.

France is similarly as strong and stable as its Western European neighbours, with a state capacity score of 83 dropping to 81 by 2019. Democratic accountability rose one point, from 87 to 88, with only small subindex variations. Public goods rose from 88 to 91, driven by a small increase in social public goods. Although France



**FIGURE 2** GDP per capita, France, Germany, Italy, United Kingdom and OECD average, 2000–2019. Source: World Bank (2023).



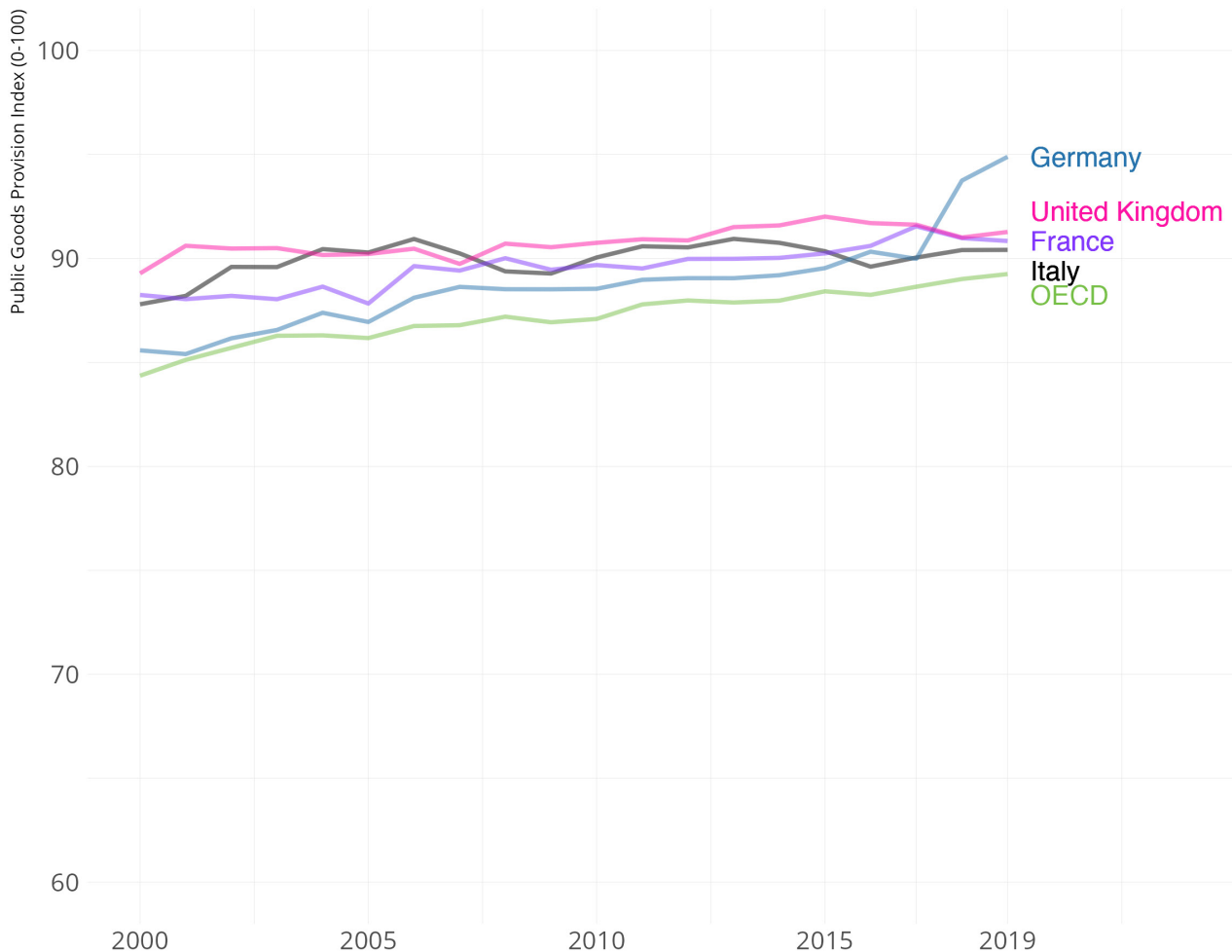
**FIGURE 3** State capacity index, 2000–2019. *Source:* Berggruen Governance Index 2022.

experienced some political upheaval during this time—notably the ‘yellow vests’ protests that began in late 2018 against high fuel costs and pension reforms—the underlying aspects of French governance appear to be solid. Indeed, none of the shifts is significant enough that it appears to correspond to specific policy changes.

Italy represents the outlier of the four, with the only top-line index score—state capacity—below 80 (see [Figure 3](#)). In this case, Italy did not experience a long-term decline, but rather stagnation at a level well below that of many other wealthy countries. Italy's state capacity ranged from 61 in 2000 to 63 in 2019, 20 to 30 points lower than the scores of the other three large European economies. Although its fiscal capacity scores were somewhat higher than those of the other countries, the coordination capacity and delivery capacity scores were substantially lower. This underperformance is unsurprising given reports of governmental dysfunction and failing infrastructure, notably recent bridge collapses (Bertacche & Brambilla, [2020](#)).

Data back up these perceptions, as Italy has the worse-ranked transportation infrastructure of the four countries in this article (CMS Legal, [2023](#)). In Italy's case, the risk of a ‘vicious cycle’ of governance is apparent. Slow economic growth creates political dysfunction and strained government budgets, which in turn cause low investment, which halts productivity growth, resulting in curtailed future economic expansion, then repeating the cycle. Indeed, through a string of populist and technocratic governments, Italy has been unable to find a stable governing coalition or establish an economic model that can succeed within the framework of the Eurozone.<sup>7</sup>

On the other two indices, however, Italy performed very strongly. Democratic accountability (89 in 2000; 90 in 2019) and public goods provision (88 in 2000; 90 in 2019) improved minimally over the same time period. This presents an interesting case, as Italy has been able to steadily provide public goods at roughly the same level as the other three large economies, even as state



**FIGURE 4** Public goods provision index, France, Germany, Italy, United Kingdom and OECD average, 2000–2019. *Source:* Berggruen Governance Index 2022.

capacity, which should mediate goods delivery, has remained low. Given budgetary constraints and political upheaval (some 10 governments during the observation period), it remains unclear how long the relatively high public goods provision can continue. With the ‘democratic fallacy’ in mind—which falsely assumes that a high level of democracy is enough to produce sufficient public goods in the absence of robust state capacity—the future of Italy’s ability to provide public goods at levels demanded by the population is very much in question.

### 3 | ECONOMIC CHALLENGES AND REFORMS IN THE EARLY 2000s

Despite their apparent strength in both economic size and governance, each of these four countries also faced unique economic headwinds at the beginning of the twenty-first century. These ranged from challenges in adopting the euro in Italy, difficulties of reunification in Germany, high unemployment in France, and the

exhaustion of a finance-led growth model in the United Kingdom.

The United Kingdom entered the 2000s in the optimistic environment of ‘Cool Britannia’ and Labour Prime Minister Tony Blair’s first term. Blair’s tenure, which stretched from 1997 to 2007, coincided with strong economic growth and productivity gains. Although some of his deregulatory moves at home and his foreign policy decisions proved controversial, the early 2000s were a relatively prosperous and optimistic time for the United Kingdom. This did not last, however. After the global financial crisis of 2007–2009, political and economic dislocation brought back to power the Conservatives, who then enacted a strict policy of budget consolidation and austerity. These reforms significantly reduced public spending but also dramatically increased regional inequality and cut investment in potential long-term sources of growth (Elliott, 2023). The resulting political and economic dissatisfaction would later contribute to the 2016 decision to leave the EU, the economic consequences



of which continue to reverberate via slow growth and fraught politics (Giles, 2022).

Germany entered the twenty-first century as the so-called 'sick man of Europe', struggling with the economic consequences of reunification and experiencing a stubbornly high unemployment rate. After a long stretch of governments in the 1980s and 1990s led by Christian Democrat Chancellor Helmut Kohl, Social Democrat Gerhard Schröder took over in 1998. While his tenure only spanned a relatively short 7 years (in comparison to the 16-year CDU reigns he was bookended by), Schröder enacted a number of highly significant cuts to the German welfare state as chancellor. Most notable among the series of pro-market Agenda 2010 reforms was the so-called Hartz-IV programme of alterations to Germany's long-term unemployment benefits, which substantially reduced payments after the first year of unemployment. While some analysts attributed declining unemployment throughout the 2010s to these reforms, they also likely contributed to a larger low-wage sector and higher income inequality (Hochmuth et al., 2021). The political divisions over the reforms also contributed to the fragmentation of the German political landscape. On the institutional side, in the late 2000s—early in Angela Merkel's chancellorship—attempts to reform the federalist system and streamline the lawmaking process were mostly unsuccessful, leaving Germany with its sometimes-unwieldy system of decision-making (Scharpf, 2007).

France illustrates a middle ground between policy stagnation and radical market reforms. It is currently the second largest economy in the EU, with a large public sector and welfare state as well as many prominent multinational corporations. In the early 2000s, as now, it was an anchor of the EU and key driver of integration policies. Although France was led by centre-right presidents from 1995 to 2012, they often struggled to undo the policies of Socialist predecessors such as François Mitterrand. For example, Jacques Chirac backed away from labour market reforms, and Nicolas Sarkozy tempered some of his pension reforms in 2010 after workers took to the streets *en masse* in both cases.

Although growth has been mediocre and unemployment has stayed relatively high, France was broadly stable in this period and eventually restored control to François Hollande's Socialists in 2012. Recently, further efforts to reform the labour market have been met with stiff resistance, despite which current President Emmanuel Macron persisted in pushing through cuts to pensions. Although these reforms may suit economic metrics of good governance, they may inflame political tensions that could later undermine the cohesiveness of the French state and erode the quality of governance.

With the introduction of the euro currency in electronic form at the start of 1999 (the physical currency was introduced 3 years later, on January 1, 2002),

countries like Italy, which had previously relied on regular lira devaluations, struggled to adapt to the new economic environment (Demertzis et al., 2017). Although the fixed currency may have reduced financial instability (Fratzscher & Stracca, 2009), the Maastricht Treaty budget criteria (specifically limits on government debt and deficits) and the country's preexisting high debt levels<sup>8</sup> inhibited its ability to invest and provide for long-term growth. Italy has also repeatedly failed to implement reforms suggested by the European Commission and has struggled with political instability, trends which are likely to have contributed to its slow growth.

## 4 | PRODUCTIVITY, INVESTMENT AND GROWTH

Italy has been plagued by low levels of investment for decades, harming its state capacity (Anheier et al., 2019) and leaving its investments well below those of similar nations, including those covered in this article. Unfortunately, it seems that Italy may be caught in a seemingly inescapable trap of high debt, low investment and incomplete reforms. In the first instance, Italy's high debt stock largely results from the 1980s and 1990s when Italy was forced to hike rates to maintain the value of the lira in order to prepare for euro accession, which added a high debt burden on top of primary budget deficits. The legacy of this costly debt lingers to this day, even though Italy has typically run a primary budget surplus in this century.

Adding to the background condition of high debt, Italy has been plagued by a 'doubly incoherent mix of structural reforms and austerity', which have pulled in opposite directions, as scarce resources have limited the effectiveness of reforms (Anheier et al., 2019). This has resulted in a consistently poor level of investment and weak growth in productivity and state capacity, all of which limit chances for expanding the economy and shrinking Italy's notoriously high debt/GDP ratio. Indeed, as *The Economist* points out, Italy's debt stock itself is not necessarily the problem. Rather, it is the ratio of debt to GDP that plagues the country—suggesting that economic growth, rather than debt reduction, may be the more promising way forward (The Economist, 2022b).

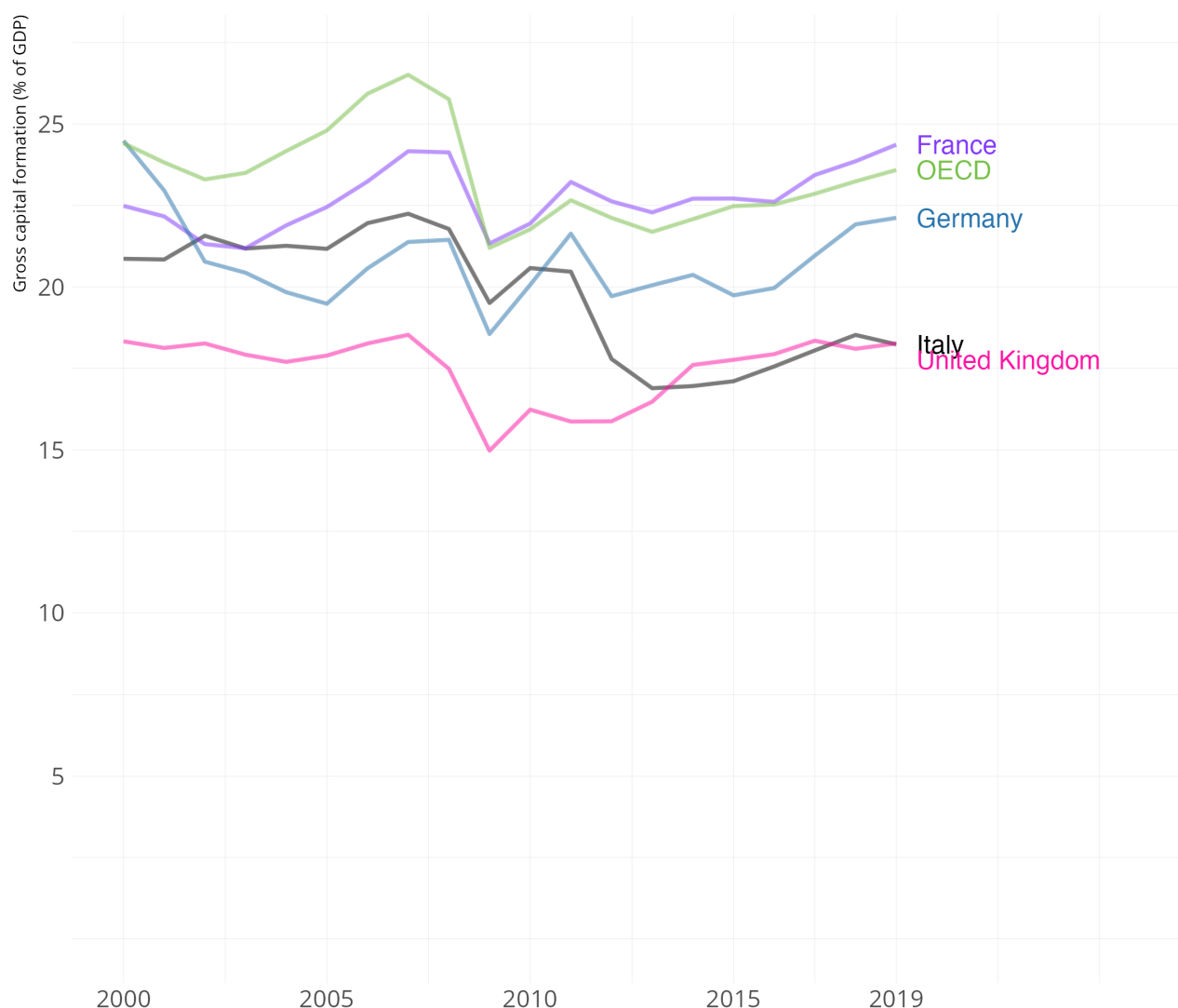
In contrast to the relatively dire Italian case, Germany provides a more hopeful story of rebounding from economic malaise. Throughout the 2010s, Germany's economy and its famed *Mittelstand* of small- and medium-sized firms regained their footing, and the country reemerged as *Exportweltmeister*, with its high-technology goods in demand worldwide and unemployment steadily ticking down. Although this period of crisis in the rest of Europe gave Germany the reputation as an anchor of stability, it also revealed key economic policy shortcomings. Even as interest rates were at historic

lows and the federal government ran budget surpluses, Germany failed to make substantial public investments, allowing its capital stock to languish near the bottom of the European rankings and deindustrialization to continue in some regions (Wolff & Roth, 2018).

Most crucially, in addition to failing to use the low interest rate environment to prepare for the future after 2009, Germany went even further. Remarkably, it chose to enact binding constraints to tighten its belt well into the future, enacting the *Schuldenbremse* ('debt brake') to constitutionally limit public borrowing. Although this has resulted in relatively strong public finances (as measured by debt to GDP ratio), it has had drastic consequences for Germany's green transition and infrastructure, as it still has one of the most carbon-intensive energy sectors in Europe and outdated rail and internet systems. These decisions constitute a 'fundamental weakness' of the German economy that could eventually pose a greater threat to Germany's state capacity in future years, as well as its ability to achieve energy

autonomy and sustainable growth (Fratzscher, 2018). As Figure 5 shows, Germany is slightly above the OECD average in investment (as measured by gross capital formation as a percentage of GDP), yet due to its ability to borrow at a lower rate than other European countries,<sup>9</sup> its failure to make greater investments is a massive, missed opportunity.

As some commentators have noted, the UK's path might parallel the alarming Italian story, albeit with a time lag of about a decade (Elliott, 2021; Hume, 2011; The Economist, 2022a). Notably, however, its troubles are more the result of recent self-imposed political choices than the inherited external constraints that Italy has faced. Specifically—because the United Kingdom has its own currency and can still issue its own sovereign debt at relatively low rates—the economic arguments for imposing austerity and reducing investment are more tenuous than in Maastricht-constrained Italy. The United Kingdom almost certainly has the fiscal space to break out if its rut, but needs the political



**FIGURE 5** Gross capital formation, per cent of GDP, 2000–2019. Source: World Bank (2023).



will to do so. For the last 15 years, this has been sorely lacking, despite many ‘low hanging fruits’, such as land reform (Tilford, 2013).

Indeed, since 2010, the United Kingdom has seen virtually no productivity growth, a trend often attributed to its lagging investment (Jackson, 2018). As with Italy, this defies a monocausal explanation, but it is clear that a significant break occurred after the 2008 global financial crisis. Since then, productivity growth has flatlined. The austerity measures imposed after 2010 exacerbated the trend, and the 2016 Brexit decision further reduced policy certainty and harmed investment, deepening the preexisting stagnation (Tomlinson, 2009). While the results of some of these policy choices have not yet shown in the BGI statistics (which only date to 2019), the pressures on public services and investment—which both result in and reflect productivity stagnation—pose a clear threat to the UK’s future and suggest that it could be following a path similar to Italy’s.

Although France has struggled to reform many of its welfare systems and employment regulations, it has performed the best of any of the four countries covered in this article on investment (see Figure 5). This investment is at least partly responsible for the country’s steady economic performance, despite political upheaval at home and troubles in the Eurozone throughout the 2010s. While France is frequently criticised for its failure to modernise certain aspects of its economy, on the measure of investment it can claim some degree of success. For example, its energy sector is highly productive as a result of investments in nuclear power, leaving it relatively insulated from external shocks and allowing it to be a constant source of energy exports to other countries. Still, more may be needed to modernise public administration and bolster state capacity in the future.

## 5 | REGIONAL INEQUALITY

Although Western European nations are relatively economically egalitarian—especially when compared to their main transatlantic ally, the United States—inequality has also been rising in Italy, France, the United Kingdom and Germany over the last two decades (Anheier & Knudsen, 2023). This affects all parts of society, but particularly troubling are the *regional* inequalities that have emerged (see Figure 6). While Germany has enacted a somewhat successful regional policy, France, Italy and the United Kingdom have had a much more difficult time in geographically distributing the resources of their economies in an equitable way.

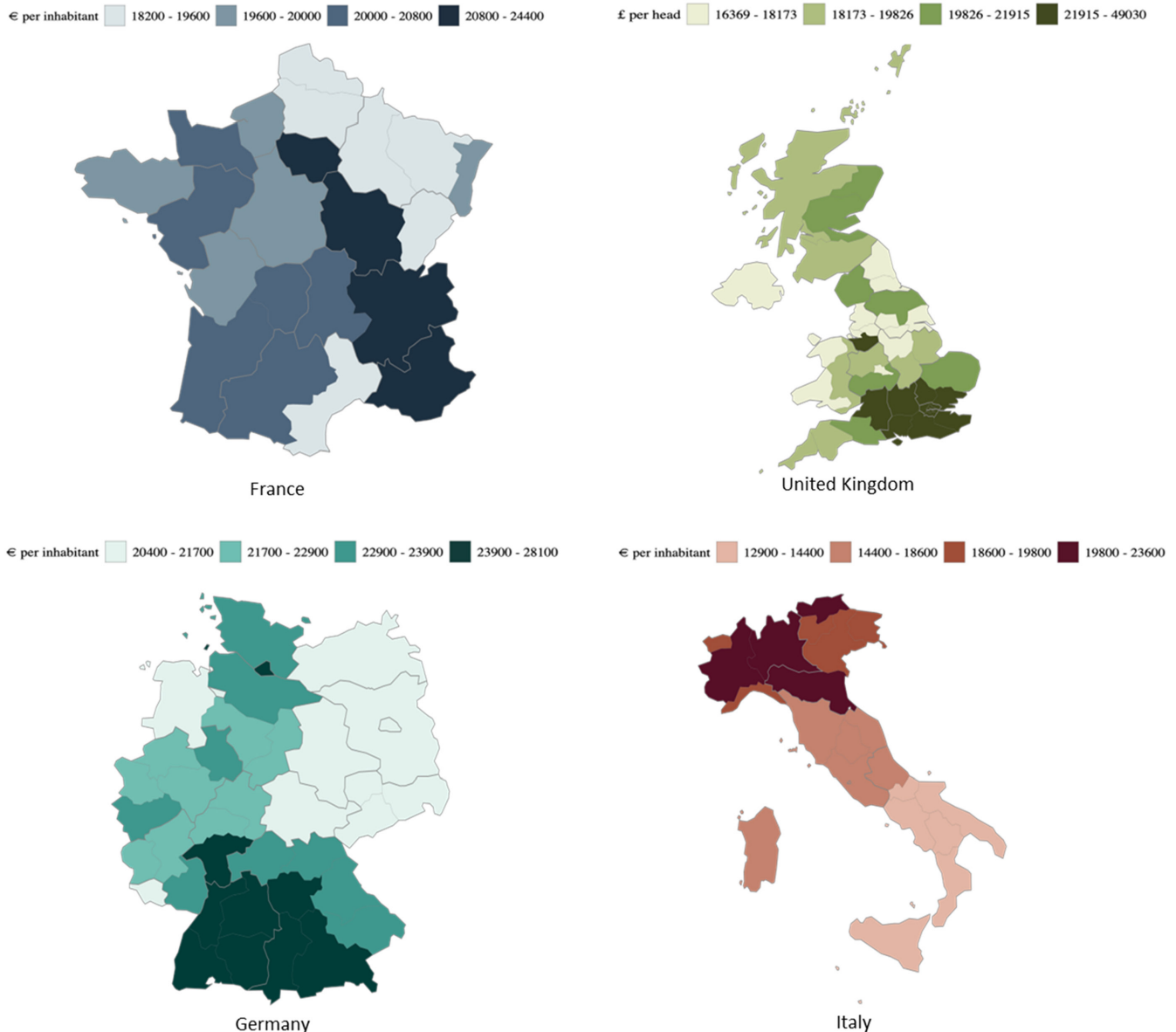
Many of the dividing lines of regional inequality are familiar: the affluent Paris area versus struggling provinces in the north of France; Britain’s productive south versus its deindustrialized north; Germany’s prosperous southwestern states versus its post-communist east and partially deindustrialized northwest; Italy’s wealthy

north versus its impoverished south. As Figure 6 shows, these assumptions are largely borne out by the data. In France, several regions in the northeast and south are far poorer than the Paris area and other cities like Lyon. In Germany, the East–West divide still lingers, although there has been significant catch-up (Chazan & Miller, 2022) and now some deindustrialized areas of the former West face similar levels of deprivation. However, it seems that the concentrated relative poverty in the East has had greater political ramifications, as the far-right Alternative for Germany (AfD) polls substantially better there than any other political party.<sup>10</sup>

Divides are starker in Italy and the United Kingdom. In Italy, some northern regions have nearly double the disposable income of southern ones. Moreover, the growth in disposable income has come largely in regions that are already richer, indicating that inequality is widening rather than contracting. In the United Kingdom, the story is primarily London versus the rest of the country. Both absolute disposable income and changes between 2000 and 2020 show a clear pattern of concentration around the English capital. This has been made worse by the cuts in the EU aid to poor regions due to Brexit and the failure of ‘levelling up’ policies. Furthermore, the post-2010 austerity measures resulted in substantial cuts to local councils, which have worsened regional inequality even as they hampered growth. These two trends form what the *Financial Times*’ Martin Wolf now calls Britain’s ‘two regional problems’: lingering regional inequalities and stagnation, which is now a problem even in London (Wolf, 2023).

Are policy fixes on offer to address these issues? While many initiatives—including EU policies—have tried, efforts to reduce regional inequality in most countries have been mostly unsuccessful (although some are performing far worse than others). In a partial exception, and despite the challenges of reunification and other emerging regional disparities, Germany is doing relatively well in this regard. Still, even this impressive progress may be insufficient to stymie dangerous political currents, as far-right movements flourish in the states of the former East Germany. This suggests that relative deprivation, rather than absolute levels of wealth, may be the largest contributor to political backlash.

By contrast, in France, many regions are moving backward, at least relative to average output in the EU (based on the 2017 and 2021 EU designations of ‘transition’ and ‘less developed’ regions<sup>11</sup>). Additionally, Italy’s yawning north–south divide is largely constant. The UK, which had a number of regions designated by the EU as ‘less developed’ and ‘transition’ in 2014, is now no longer included and no longer receives regional funding due to its departure from the group. In lieu of these policies, the UK government had proposed a ‘levelling up’ plan, but researchers have found that it was mostly unsuccessful and wide disparities continue to grow (Forbes et al., 2022).



**FIGURE 6** Stark regional inequalities in many Western European countries. *Source:* Eurostat (2023b).

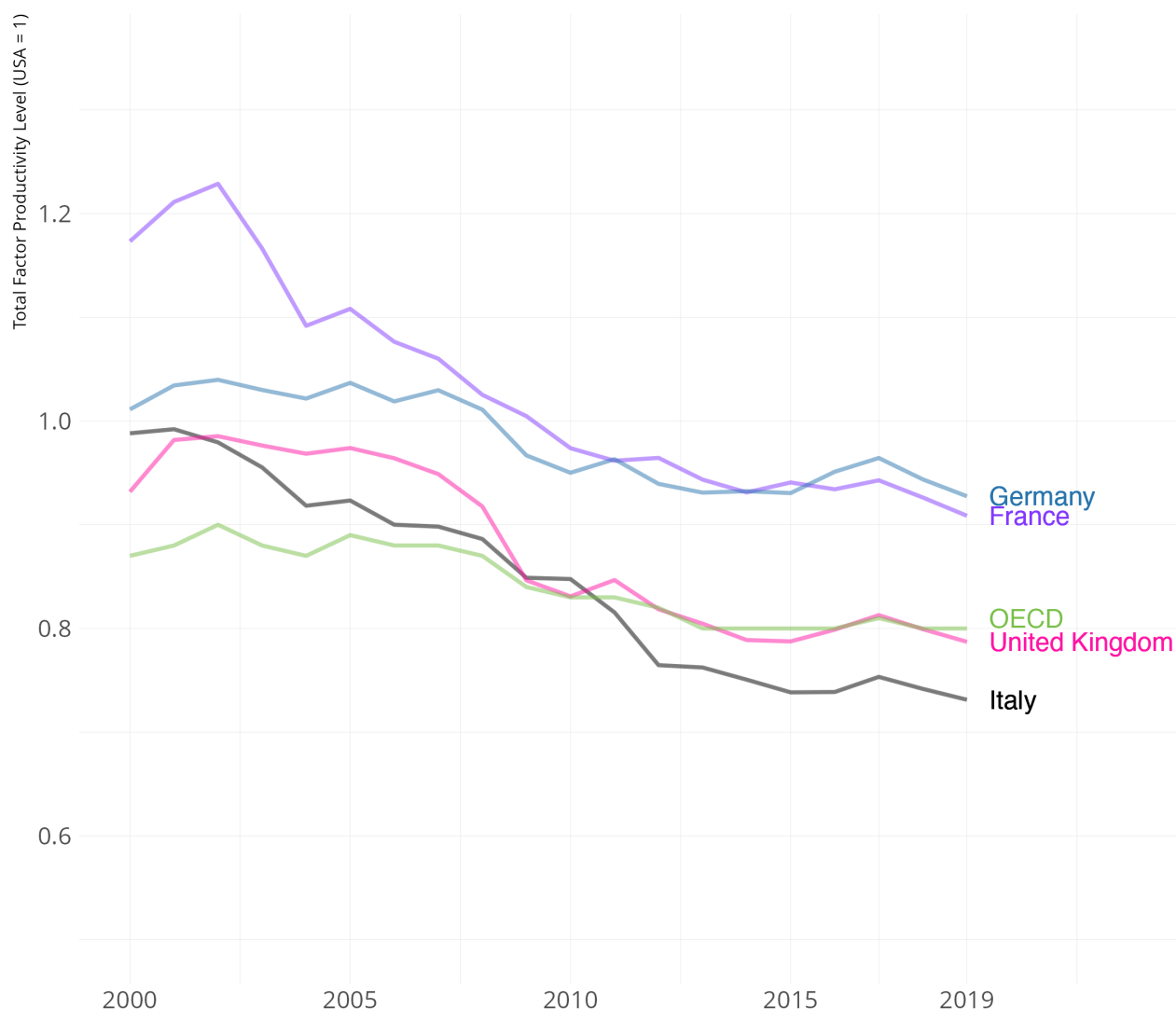
Overall, the rise of spatial inequality has been a major factor across countries and is often linked to electoral backlash and right-wing populist voting behaviour (Wolf & Rosés, 2018). While headline national figures can often obscure these economic fault lines, they often reverberate through national politics. This is due especially to the frequent overrepresentation of sparsely populated areas and the popularity of far-right candidates in non-urban regions (May, 1974; Rickardsson, 2021; Rodden, 2019).

## 6 | GROWTH CHALLENGES AND POLITICAL BACKLASH

These previous two factors—among others unique to each country—have combined to produce slow (and in

some cases zero or even negative) economic and productivity growth (see Figure 7) in all four countries, with outright stagnation in Italy over recent decades and hints that the same trend may be emerging in the United Kingdom. Much of this is driven by suboptimal investment levels. Although they have performed better on this measure, France and Germany have also seen lower growth than other rich countries like the United States. This lingering sense that there is no longer a ‘growing pie’ can contribute to the erosion of the social bargain that characterised much of the mid- to late twentieth century.

This question is most pressing in the case of the United Kingdom. Both post-2010 austerity and the decision to leave the EU have left long-term scars on the UK economy, but its stasis has not yet fallen to the level of Italy. While its economic divergence from many other developed countries is striking (Tooze, 2022), so



**FIGURE 7** Total factor productivity, 2000–2019. Source: Penn World Table 10.01.

far governance (often a lagging indicator of investment) has *not* been substantially affected. Whether its low investment and political upheaval will catch up with it is the core question for its political economy going forward.

In all cases, slow growth and inequality have been accompanied by some form of right-wing populism, although with different aims and with different degrees of success. In the United Kingdom, the Brexit referendum proved successful, with high support in many deindustrialized regions. In Italy, divides between north and south have stoked chauvinist sentiments, with the current government now drawing direct lineage from the fascist movement of the early twentieth century (Broder, 2023). Germany's AfD now frequently comes in at second place in national polls, occasionally hitting 20% of the population's support. Given Germany's much-touted success in 'learning from its past' (Schultheis, 2023; Wittlinger & Boothroyd, 2010),<sup>12</sup> this figure would have been shocking only a few years ago and indicates deep

political discontent in the country often considered the bedrock of the EU. In France, the *Rassemblement National*, formerly the National Front, which does well in poorer regions, has reached the second round of the presidential election two times in a row. Controversial social reforms have stoked further anger and there has been a general 'mainstreaming' of the far-right in France (Marlière, 2022). Indeed, there are some fears that the far-right party could win in 2027, as it currently polls above the incumbent *Ensemble* (but slightly below the left coalition *NUPES*) (Politico, 2022).

In most cases, the 'firewall' between mainstream parties and the radical right has held. However, political turmoil and dysfunction could make it more difficult to implement further reforms and investments, risking a vicious cycle of governance. This could mean fewer government resources to fight climate change, prepare for pandemics, and invest in technologies needed for the green and digital transitions. In turn, these failures

may further aggravate populist sentiments, making it even harder to prepare for the future.

These fears are not purely hypothetical. Italy's story of stagnation and a slide into 'post-fascist' government serves as a warning of the potential trajectory that other countries could slip into. Specifically, Italy's long-term lack of investment has strangled productivity growth and limited its ability to expand state capacity. These trends have wreaked havoc on its already-fragile political system, leaving it in a seemingly unending cycle of populist and technocratic governments—neither of which have proven able to break out of the loop.

Italy's tale is no doubt sobering. However, the more hopeful news is that no other country in this article is destined to follow this path. Importantly, due to the greater fiscal and policy space that the United Kingdom, France and Germany enjoy, only political miscalculations can lead them down such an unfortunate path. Accordingly, whether Italy proves to be an outlier or a 'canary in the coal mine' depends almost exclusively on the political decisions made in the other countries. Some trends—notably in the United Kingdom—are alarming, but nothing is yet preordained. For its part, Italy will likely struggle to emerge from its current trap, as the political space for a debt write-down looks nonexistent for the time being.

## 7 | CONCLUSION: FUTURE-PROOFING OR STAGNATING?

The story of governance in Germany, the United Kingdom, France and Italy is hardly one of failure. As we have seen, they all score very highly on almost every index and subindex, generally placing well above the OECD average. However, after 2008, they all failed to fully use the advantages of existing in an integrated, peaceful, prosperous and low-interest rate environment in order to fully future-proof their societies, economies and governance structures.

Across all four countries, there are many shared policy needs. As this article has repeatedly shown, relatively slow economic growth across the board (albeit to varying degrees) is largely the result of weak investment and productivity growth. Given this trend and the worsening climate crisis, a more active governmental approach in structuring the economy—at both the national and EU level—is needed to direct green industrial policy, especially given the rise of China and the resurgent industrial policy of the United States.

This relates to the need to embrace the technologies that are essential to future economic success, such as 5G, advanced chip manufacturing and green energy. Investment in these fields will be vital for both building industrial strength and streamlining administrative systems, many of which are outdated and holding back growth. These actions must be combined with a clear regional policy to spread out high-quality jobs more equally

across regions. An active and geographically distributed green industrial policy can also help to defuse cultural and political tensions with good-paying jobs and a re-invigorated social bargain.<sup>13</sup> Additionally, countries must increase integration of immigrants in order to bolster economic growth (such as recent efforts to reform Germany's citizenship laws) and reduce the backlash to the perceived 'outsider' status of new arrivals.

On a country-specific level, Germany is mostly on a successful path, and relatively minor reforms could set it up for success in future decades. Somewhat paradoxically for Germany, which exports some of the most technologically sophisticated products in the world, the most important issue is lagging technological and infrastructural modernization, which affects energy use, inefficiencies in business and transportation and bureaucratic inertia.

While many of France's external indicators portray a sense of stability, political and economic challenges have been lurking below the surface. France has been plagued over several years by high unemployment levels, which have limited the ability of the country to fully engage its resources productively. Although the unemployment rate has recently dropped to a 14-year low, at 7% it is still slightly higher than the EU average and about four points higher than Germany's (Eurostat, 2023a). Further investment to stimulate employment demand and reforms to improve the employment rate are still necessary to ensure that it does not fall into long-term stagnation.

Italy and the United Kingdom present more intractable problems. Italy in particular is a case of long-term economic stagnation and political instability, seemingly unable to find a sustainable growth model under the fixed exchange rate system of the euro and the high debt it inherited from the 1990s. With a decline in productivity since the year 2000 (see Figure 7), it has faced a remarkably difficult economic journey, combining fitful reform efforts with tough austerity measures. Getting Italy out of its rut will be difficult, but it is clear that a strong combination of both reform *and* investment will be needed (Krahé, 2023).

The United Kingdom also defies easy fixes, as the combination of economic stagnation and political turmoil since 2008 has been unprecedented in its history (Davies, 2022). Greater investments in infrastructure and public services will clearly be essential, especially in poorer regions. Additionally, land use is a critical problem, as extremely high property prices in productive cities make it difficult for people to move from deprived regions to well-off ones, limiting growth. Given the scale of the challenges, bolstering growth in poor areas *and* making it easier to move to wealthy ones—mostly by building more housing—will be needed to fix the UK's growth and productivity stagnation.

Returning to the concept of the 'narrow corridor' introduced earlier in the article, it is clear that all four



countries still find themselves squarely in the ideal 'shackled Leviathan' category, with high state capacity and democratic accountability as well as public goods provision. This comfortable position may be slipping away, however. Italy's flagging state capacity may be a sign that it risks falling into the 'absent Leviathan' territory. This threat is not imminent for France and Germany, but the challenges facing Italy and the United Kingdom might serve as a warning against complacency, even for wealthy countries that appear to be on the right path. Western Europe may fare better than almost all of the rest of the world, but to protect and expand the high-quality governance it enjoys will take diligent investment, innovative policy-making, and the ability to overcome entrenched political obstacles to reducing inequality and boosting productivity.

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## CONFLICT OF INTEREST STATEMENT

No conflict of interest.

## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are openly available at <https://governance.luskin.ucla.edu/datasets/>.

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## ENDNOTES

- <sup>1</sup> The Berggruen Governance Index is a collaborative project between the UCLA Luskin School of Public Affairs and the Berggruen Institute examining, as of 2022, the performance of 134 countries in key areas over a 20-year period to advance understanding of why some countries are governed more effectively and enjoy a higher quality of life than others. See the article 'Introducing the Berggruen Governance Index: I. Conceptual and Methodological Framework', by Anheier, Lang, and Knudsen in this special issue. The full dataset is available for download in various formats at <https://governance.luskin.ucla.edu/datasets/>. A data exploration tool offers readers a variety of ways to examine the data; available at <https://governance.luskin.ucla.edu/index/>.
- <sup>2</sup> Drawing from Hirschman (1986) and adapted from Acemoglu and Robinson (2019).
- <sup>3</sup> Eleven of 12 indices for the four countries are at 80 or above (on a 100-point scale). Only Italy's state capacity falls below this range.
- <sup>4</sup> The European Union's GDP grew at an average rate of 1.57% between 2000 and 2019 while the United States saw average economic growth of 2.08%. While this difference is not overly significant in a single year, compounded over decades it has resulted in a large economic divergence between the EU and United States.

- <sup>5</sup> While wealthy countries like the ones discussed in this article cannot be expected to achieve the same growth levels as poorer countries, an altogether absence of growth is also unusual among developed countries (Crafts & Mills, 2020).
- <sup>6</sup> For more on 'vicious cycles' of democratic dysfunction and economic challenges, see Anheier and Knudsen (2023).
- <sup>7</sup> Although technocracy and populism are often juxtaposed, some scholars find that they often go hand-in-hand and are complementary (Bickerton & Accetti, 2021).
- <sup>8</sup> Much of Italy's debt is decades old, stemming from efforts to stabilise the lira in the 1980s, rather than recent budgetary mismanagement (Ginsborg, 2003).
- <sup>9</sup> Borrowing costs in Europe are often measured by the 'spread', or the gap between one country's bond yields and those of Germany. France, which borrows more than Germany, must do so at a higher cost. <http://www.worldgovernmentbonds.com/spread/france-10-years-vs-germany-10-years/#:~:text=The%20France%2010%20Years%20%2F%20Germany,0.4%20bp%20during%20last%20year.>
- <sup>10</sup> About one third of voters in the 'new federal states' say they support the AfD, representing roughly twice the level of support they receive in the West and about 10 percentage points higher than the nearest competitor in the East, the CDU (Handelsblatt, 2023).
- <sup>11</sup> The EU designates regions as more developed (90% or more than the EU average GDP per capita), transition (between 75% and 90% of the EU average GDP per capita), and less developed (under 75% of the EU average GDP per capita). Evaluations have been made in 2007, 2014, and 2021.
- <sup>12</sup> This phrase often specifically refers to the past experience of Nazism and implies an intolerance of future far-right movements, which is reflected in the current norm of refusing to form a coalition with the AfD either the national or state level (although this is not always observed at the local level).
- <sup>13</sup> For example, the US' CHIPS and Inflation Reduction Acts (IRA) have resulted in a large-scale expansion of green manufacturing in many of the rural regions that are often considered 'left behind' and voted heavily for Donald Trump in 2016 and 2020 (Senate Democrats, 2023).

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## APPENDIX A

### Berggruen Governance Index scores, selected countries, 2000–2019.

Index/subindex	United Kingdom			Germany			France			Italy		
	2000	2019	Change	2000	2019	Change	2000	2019	Change	2000	2019	Change
State capacity	86	84	–2	93	88	–5	83	81	–2	61	63	+2
Fiscal capacity	50	46	–4	44	48	+4	46	49	+3	52	52	0
Delivery capacity	89	87	–2	98	88	–10	85	83	–2	66	67	+1
Coordination capacity	89	89	0	96	96	0	88	87	–1	62	64	+2
Democratic accountability	89	89	0	99	95	–4	87	88	+1	89	90	+1
Institutional accountability	84	86	+2	94	95	+1	76	76	0	80	83	+3
Electoral accountability	88	91	+3	99	96	–3	89	91	+2	89	92	+3
Social accountability	89	87	–2	95	89	–6	90	91	+1	90	91	+1
Public goods provision	89	91	+2	86	95	+9	88	91	+3	88	90	+2
Social public goods	87	89	+2	82	93	+11	87	91	+4	88	90	+2
Environmental public goods	98	99	+1	92	95	+3	98	98	0	98	98	0
Economic public goods	90	92	+2	98	98	0	84	84	0	77	82	+5