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Deconstructing Draghi: Europe's quest for investment and growth

2024 has been an election year in the EU, which is the usual opportunity for EU citizens to discuss and, to some extent, determine the political future of further EU integration. This time, the June elections were followed by particularly intense debates on the economic future of Europe. To frame the policy debates leading up to the establishment of the new European Commission, Ursula von der Leyen and Mario Draghi presented the report "The future of European competitiveness".[1] Draghi was not alone in thinking about the future of the EU economy. We should, in particular, pay attention to the reports authored by Enrico Letta and the expert group chaired by the LSE professor Andrés Rodriguez-Pose. The combined lessons of these reports should not only lead to action that aims to improve the EU's business model but also to further boost the social dimension of the EU. Here, we outline these connections in the light of EU policy evolution and in the broader context of transatlantic political developments and globalised economic warfare. Understanding the current dynamics and exploring alternatives should be important for all EU actors, but especially Progressives.

Mario Draghi's second coming

Former ECB President Mario Draghi was invited by Ursula von der Leyen to deliver a report on competitiveness. While Draghi was working on the report in the first half of 2024, his name also appeared in connection with rumours concerning some of the top posts of the EU, but eventually, other candidates were chosen. However, just as the world learned his name in July 2012,[2] when he stopped the disintegration of the euro single-handedly, now he emerged as the super-expert to drive Europe back to the path of competitiveness and, more concretely, growth and prosperity.

Competitiveness was on the agenda of the informal European Council held in Budapest in early November, and the Hungarian presidency of the Council listed among its achievements the elevation of this topic to the top of the EU policy pyramid. Even before

1 Draghi, M. (2024) "The future of European competitiveness". European Commission, September.
2 Andor, L. and D. Rinaldi (2022) "'Whatever it takes', ten years on". Social Europe, 26 July.

the new Commission entered office on 1 December, it was announced that von der Leyen would set up a new task force, sitting within the secretariat-general, to serve as a centre of action and secure the implementation of the Draghi report.

In reality, the report is primarily not about competitiveness, but about why and how the EU should engage in industrial policy. This is, of course, not a new idea either. Industrial policy was meant to be one of the 'flagship initiatives' of the Europe 2020 strategy launched in 2010. In the hands of then-commissioner Antonio Tajani (EPP), it did not develop into anything meaningful. In the black years of EU industry, the Commission published documents on an industrial revolution, or at least on industrial renaissance, but the modus operandi did not really change either at the national or EU levels.

Draghi returns to the old grievance of European economists: why do our investments in education, research and innovation not translate into higher productivity and greater business success? What Draghi identifies as a main problem is the lack of giant European companies, despite the EU having the largest single market in the world. Many further questions just remain between the lines. For example, the EU should face the fact that the European economy never really recovered from the 2008-2009 Great Recession, partly because the global financial crisis and the subsequent eurozone crisis, in particular, were misdiagnosed. In 2011, the EU was already trying to set a new direction in the pursuit of competitiveness, but at that time the focus was merely the question of cost competitiveness, meaning wages and taxes in particular.

Draghi's report was presented in September 2024 as a reaction to an acute situation, although much of the report would have been timely 10 or 20 years earlier as well. It could have already happened around 2000 to help the Lisbon Strategy to succeed, or at least in the aftermath of the Great Recession and the eurozone crisis. It also could have been presented as an EU response to the US Inflation Reduction Act (2022), a centrepiece of Bidenomics.[3]

Investment is a good example to show that Draghi is essentially returning with messages already heard before. His call for €800 billion annually to invest in sustainable and digital projects turned out to be easily quotable. But let's not forget that the EU faced the 'investment gap' ten years ago when the Juncker Plan was presented as a response, which was implemented successfully in the form of the European Fund for Strategic Investment, but then scaled down to become InvestEU, instead of being scaled up to address the critical challenges of the time.

Altogether, Draghi delivers the hard truth: Europe did not just get into trouble in 2023 or 2024. Ever since Maastricht, it has been building an incomplete system based on a flawed design. Hence, the inconvenient truth: either we move ahead and do it fast, or face disintegration. The point is that the EU must break free from its path dependency to stop the decline and avoid disintegration. Whether it is good to pursue this under the title 'competitiveness' is another question.

3 On the economic policy of Joe Biden, see Tooze, A. (2024) "Great power politics". *London Review of Books*, 21(46): 7 November.

Competitiveness: Conceptual complexity

Competitiveness is a word widely used but with a variety of meanings and, therefore, with some ambiguity. Its usefulness was questioned in the 1990s by Paul Krugman[4] (which was recalled by Draghi himself when presenting the essence of the report in La Hulpe[5] in April 2024). One could argue that the enormous trade surplus of the EU is evidence of having not a problem with competitiveness as such but rather growth, and more precisely with the long-term growth potential, especially in comparison with North America and East Asia.

The search for the recipe of competitiveness already started in the 1990s once the deflationary effects of the Maastricht Treaty (and the subsequent SGP) were detected, and eventually the Lisbon Strategy was launched in March 2000 by the EU heads of state and government. It aimed to make Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". Though this definition has often been mocked in the past two decades, by this, the EU gave a new definition to competitiveness.

Very importantly, the Lisbon Strategy was launched when European policymakers already detected a competitive disadvantage in comparison to the United States. By that time, the 'convergence' agenda of the Economic and Monetary Union (EMU) had imposed restrictions on fiscal and monetary policy, resulting in higher-than-desired unemployment in the member states committed to adopting the single currency.

In the late 1990s, it was not purely an aesthetic question, but a vital political one for the EU to go beyond the Maastricht paradigm and reconcile economic competitiveness with maintaining the European Social Model. Defining this objective was possible because, in that period, the centre-left was the dominant force in both the European Council and the European Parliament. Today, however, the political wind is blowing from a different direction.

Judith Kirton-Darling and Isabelle Barthès criticise[6] the Draghi report for the lack of an elaborate social chapter. This might be true, but the single page Draghi devotes to the question of social inclusion is significant. He stresses that due to the need for a trained workforce and because of demographic ageing, Europe is facing a labour shortage, and old-fashioned ideas pushing for the devaluation of labour are not welcome.

Perhaps surprisingly, Draghi opines that the European Social Model is a value in itself which must be defended. He quietly disconnects from the old competitiveness paradigm of the Schäuble-Rehn period, when wage restraint was a major component of the toolkit, as part of a broader internal devaluation agenda (cutting all types of public spending, including investment). He leaves space for others to elaborate further dimensions of a European reconstruction (e.g., aggregate demand management and social inclusion).

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4 See Krugman, P. (1994) "Competitiveness: A dangerous obsession". *Foreign Affairs,* 2(73): 28-44.

5 On the La Hulpe conference and declaration, see Vandenbroucke, F. (2024) "The Declaration of La Hulpe: An ambitious social agenda for the next five years". *The Progressive Post*, 19 April.

6 Kirton-Darling, J. and I. Barthès (2024) "Draghi report: A social agenda is lacking". *Social Europe*, 12 September.

In the narrative of the first von der Leyen commission, the triad of "smart, sustainable and inclusive" (established by the Europe 2020 strategy) has been replaced by "smart, sustainable and resilient". The difference between inclusive and resilient is meaningful. The latter was introduced into the EU language after the eurozone crisis years, and it basically means that a country should prepare itself for adversity and shocks, without counting on the support of others. By highlighting inclusion, Europe 2020 accentuated the need for the economic and social integration of marginalised groups. Resilience, on the other hand, means dropping the progressive commitment to inclusion and downplaying the EU's responsibility to deliver social outcomes.

Further reporters: Letta and Rodriguez-Pose

Draghi's report is comprehensive, but he himself refers to the Letta report[7] as one that adequately covers the question of the single market. The Belgian presidency of the Council invited Enrico Letta to elaborate on the question of the internal market and outline opportunities. The Letta report is divided into two main sections. The first section outlines the political vision collected through Letta's diverse consultations across Europe, while the second one provides various practical recommendations.

The six chapters focus on (1) research, innovation and education; (2) financing strategic goals; (3) scaling-up companies; (4) sustainability in the single market (for all); (5) speedy and efficient enforcement of regulations; and last, but not least, (6) the single market beyond its borders. Unlike Draghi, whose inputs came almost exclusively from older member states, Letta built his report from a myriad of consultations both East and West. Once the document was ready, he travelled across Europe again like a whirling dervish to share his insights and discuss his conclusions with stakeholders of all types.

It caught the eyes of many readers and stakeholders that Letta introduced the concept of "the freedom to stay". In other words, taking advantage of the right to move freely within the EU should be an option, and people should not feel that economic pressure is forcing them out of the location where they would like to live. This would require a genuine spread of economic opportunities to each and every corner of the EU, providing quality education to young people everywhere and implementing the youth guarantee effectively to facilitate school-to-work transitions.

Letta's approach would justify those who consider the single market and cohesion policy to be the two sides of the same European coin. Therefore, it is regrettable that, compared to Draghi and Letta, it received only modest publicity that an expert group chaired by the LSE professor Andrés Rodriguez-Pose[8] was working on this very topic in 2023-2024. This expert group delivered a report on it in February 2024. This work was

7 Letta, E. (2024) "Much more than a market". European Commission, April.

8 Directorate-General for Regional and Urban Policy (2024) "Forging a sustainable future together: Cohesion for a competitive and inclusive Europe". Report of the High-Level Group on the Future of Cohesion Policy. Publications Office of the European Union, February.

commissioned by then EU Commissioner for Cohesion and Reforms Elisa Ferreira, who was personally involved in the discussions together with several other commissioners and a number of high-level Commission officials. Addressing structural inequalities to unlock untapped economic potential in all EU regions was the motto of this effort.

One needs to know that, today, 120 million EU citizens live in less-developed regions, and 60 million of these people live in regions with a GDP per capita lower than it was in 2000, while 75 million hail from regions with near-zero growth. According to this evidence, one third of the EU population lives in places that have slowly fallen behind instead of growing fast or catching up. These regions are increasingly uncertain about how to pull themselves out of these development traps, in contrast to other parts of the world. Such levels of stagnation in regions where people already feel forgotten are a breeding ground for discontent and polarisation, which more superficial political analysts attribute to cultural factors or Russian propaganda. The political risks of maldevelopment and disenfranchisement are high, since this can also lead to a loss of faith in the European project as a whole.

The report identified critical areas such as competitiveness, polarisation, lack of opportunities and turbulent global dynamics, underscoring the imperative for tailored interventions to address these complex issues. Factoring in technological disruptions, demographic shifts and environmental imperatives, it stresses the need for a future policy that continues to be place-based as much as people-based. The logical conclusion is that cohesion policy[9] should remain fundamentally concerned with its original mission of driving sustainable development and boosting competitiveness, while maintaining flexibility to address various urgencies. In other words, there can be no green transition, functioning single market, nor a more innovative or competitive EU without an efficient cohesion policy that helps the lower-income regions also to participate in such common EU actions and endeavours.

System competition and globalised economic warfare

Through his report, Draghi invites us to think about a system's competition in the world economy. He follows the tradition of benchmarking European performance against the US, which has been a standard approach for some time, even if Europe was meant to develop and maintain its own business and social models compared to other major players, namely, the US and China.

However, if we analyse the last three decades, there are three periods when the gap between the US and EU growth rates widened: (1) the mid-1990s, when the Maastricht criteria started biting and the deflationary effect of the EMU was displayed; (2) after the Great Recession, when the EU entered a second recession while the US recovered – because the EMU governance is pro-cyclical; and (3) after the outbreak of the 2022 Russo-Ukrainian war, when the EU entered headlong into global economic warfare without an impact assessment and shot itself in the foot, economically speaking.

9 For a current assessment of cohesion policy, see Schwab, T. (2024) "Quo vadis, cohesion policy? European regional development at a crossroads". Policy paper. Bertelsmann Stiftung, June.

Europeans often misunderstand the sources of US economic power and prosperity. Many buy into the Silicon Valley mythology and would push a wholesale deregulation agenda inspired by neoliberalism. Reading Mariana Mazzucato helps clarify the nature of innovation and productivity in the US. One should also consider how the rest of the world subsidises US prosperity by using the dollar. And more recently, the EU added two more subsidy channels: one is the hike in purchasing US-made weapons and the other one is the creation of a dependency on US shale gas.

In 2024, Europe entered the third year of the war in Ukraine if we count it from the 2022 February Russian invasion. Consequently, defence became a critical question for the EU, and it is given adequate space by the Draghi report as well. However, the key here is integration within Europe, which would be more important than countries increasing their purchases from non-European sources side by side. Common research and development and production (and financing) capacities are necessary. Exploiting economies of scale together, EU countries can ensure that the costs of the military do not crowd out other crucial items of public spending.

Since 2016, Europeans have lectured the British about the colossal error they were making by ejecting themselves from both the single market and the customs union. However, the EU has been risking similar errors when the integrity of its own policies was subordinated to a geopolitical agenda defined by Ursula von der Leyen, while geoeconomic and foreign policy preferences of EU countries may differ significantly. The repercussions on EU member states may also be uneven.

If there is one clear loser of the new global economic war, it is Germany. However, if Germany's economy remains in a downward spiral for too long, Europe as a whole loses its economic powerhouse. Until recently, Germany appeared to be a paragon of economic and political success. Angela Merkel was widely seen as the true 'leader of the free world', and Germany's export-driven economic model seemed to deliver prosperity. But recent events – from Germany's dependence on Russian gas to its car industry's delays in the race to electric technology – have undermined this view. The risk Germany is facing is to follow the pattern of Japan in the 1990s, that is, a decade-long stagnation, as explained in a new book by Wolfgang Münchau under the unambiguous title *KAPUT*.[10]

Current trends in industrial production (with large-scale dismissals in companies like Volkswagen, Bosch, BASF, Bayer, ThyssenKrupp and many others) give the impression that Germany would want to opt into the Morgenthau Plan with an 80-year delay. Germans not speaking out against their disastrous course might well stem from historical reasons and the belief that they are paying a price for their guilt, but equally importantly, Germany is paying a price for having figures like Lindner, Habeck and Baerbock, who all demonstrated serious deficits in preparedness for serving in such high offices, in their government.

Even if a guilt culture exists in Germany, it is not supposed to drag Europe into eternal stagnation. Even if there were a suicidal wish among Germans – and for some Germans,

10 Münchau, W. (2024) *KAPUT: The End of the German Miracle* (London: Swift Press).

especially among Green voters, having less manufacturing is surely a positive vision – Europe cannot afford such a sharp decline in its industrial heartland. Hence, another factor justifies the need for EU-level industrial policy.

Transatlantic deregulatory frenzy

In the US, the victory of Donald Trump has opened a new direction concerning the orientation of government policy, which can be characterised as an ultra-Reaganite campaign against state intervention in the economy. The visit of Argentinian President Javier Milei to Mar-a-Lago on 14 November symbolised the new spirit that imperils the US economy and society. The self-styled 'anarcho-capitalist', Milei, since his entry, has generated industrial decline and sharply rising poverty in Argentina.[11] For Trump, Milei is a MAGA person. Just like in the 1970s, Chile was the laboratory of Chicago neoliberals and their neoconservative practitioners in the US and UK; now Argentina is the testing ground for the capitalist revolution.

Trump announced the establishment of a new government office (Department of Government Efficiency or DOGE) headed by the duplicitous business and media mogul Elon Musk[12] and former presidential candidate Vivek Ramaswamy. These personalities are expected to advise Trump's incoming administration on cost-cutting, deregulation and reducing the size of the US government. DOGE will not be a federal executive department – which would require congressional approval – or receive taxpayer funds. In the past, Ramaswamy suggested dismissing 75% of all non-military government employees. Musk has pointed to government jobs related to climate initiatives that need to be eliminated. Both men have also suggested permanently ending the twice-yearly daylight saving time changes in the US.

Recently, Elon Musk came out with hostile and threatening language towards European centre-left leaders, while he has developed a friendship with post-fascist Giorgia Meloni.[13] Threats from Trump and Musk against the UK government might be explained by Labour's – otherwise timid – steps towards improving working conditions[14] and repairing relations with the EU.

What Trump has offered to the rest of the world is trade wars. In particular, he has threatened those countries which endeavour towards de-dollarisation. While this is primarily a message to the BRICS group, the EU should also be concerned, since the creation of the single currency itself, but especially the promotion of its international role, was also driven by the need to end the "exorbitant privilege" represented by the dollar.[15]

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11 On the social consequences of Milei's economic policy, see Calatrava, A. (2024) "Argentina's poverty rate spikes in first 6 months of President Milei's shock therapy". *The Associated Press*, 27 September.
12 Isidore, C. (2024) "How much of Musk's wealth comes from tax dollars and government help?" *CNN*, 20 November.
13 On the relationship between Musk and Meloni, see Varvelli, A. (2024) "The new Futurism: What a Meloni-Musk alliance could mean for Europe". European Council on Foreign Relations, 22 November.
14 "Government unveils significant reforms to employment rights". gov.uk, 10 October 2024.
15 Marsh, D. (2020) "Giscard d'Estaing: Architect of euro and sdr". OMFIF, 3 December.

Ursula von der Leyen's rightward turn and the rise of the EPP-ECR policy axis pushed the endeavour of simplification, or more concretely, deregulation, higher on the EU agenda. Rekindling the paradigm once represented by a high-level group led by Edmund Stoiber[16] risks prescribing the wrong medicine again. Once it was only a slogan of the loony right in the UK to speak about the bonfire of regulations, but now it appears as von der Leyen's *Wunderwaffe* (miraculous weapon) to bring in a new "omnibus legislation"[17] to cut rule overlaps, which might fall short of boosting productivity but may help to create a smokescreen. Von der Leyen and Valdis Dombrovskis may not run around and produce social media images with a ferocious chainsaw, but the impression of pro-business action[18] in Brussels will be delivered, while the more essential points of the Draghi report may be sabotaged.

Former liberal MEP Marietje Schaake has written a remarkable book[19] about the myth of Silicon Valley and how technology companies use 'innovation' as a disguise for resisting regulation. Today, this amounts to a "tech coup" to which the Trump revolution is opening the gates wide. In Europe, as in the US, the deregulatory campaign often arrives in a geopolitical disguise: portraying deregulation as a precondition for competitiveness with China and preventing the dominance of Chinese companies in cutting-edge technologies.

In her book, Schaake also exposes the controversial world of crypto-currencies, which not only threaten the savings of many households but the stability of the global financial system as well. She stresses that regaining the primacy of democratic governance over corporate power is crucial, even if corporate interest and profit hunger dress themselves in tech utopia. This offers very important insights and warnings for EU policymakers searching for the true meaning of innovation and the right tools to boost it.

Conclusions: Choosing slow agony

When Mario Draghi presented his report in Brussels alongside Ursula von der Leyen, he tried to alarm the European audience. He actually said that the EU either embarks on the road he outlined or faces the slow agony of decline. Whether EU actors see the Draghi report as a common platform on which more can be built, or a basket from which they can cherry-pick will determine whether the EU remains an autonomous player in the global competition or not. In a new Commission dominated by the EPP, there are fears that the 'cherry pickers' will be able to define the agenda, and instead of reforming the EMU and creating a proper EU fiscal capacity, the real efforts would just aim for deregulation, financialisation and militarisation.

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16 "'Stoiber prescribing the wrong medicine'". Press release. ETUC, 13 October 2024.
17 Robinson-Tillett, S. (2024) "An EU omnibus will not solve the reporting problem". Real Economy Progress, 25 November.
18 McGowan, J. (2024) "EU leadership plans to revamp business climate regulations". *Forbes*, 25 November.
19 Schaake, M. (2024) *The Tech Coup: How to Save Democracy from Silicon Valley* (Princeton: Princeton University Press).

The search for a new growth model in Europe, under the banner of competitiveness, should revive the endeavour of long-term planning with result orientation. For some, developing visions and setting targets is futile, especially in a community as complex as the EU. If a programme is announced but not followed through, the result is a loss of credibility. However, it seems life reproduces the need for such long-term programmes, and the electorate expects leaders to be strategic, forward-looking and focused on development.

Under the recent shocks, the progressive potential of the EU should be rediscovered. It can be the guide to the necessary reset of our economic governance mechanism but also a new commitment to social cohesion. To be truly compatible with such objectives, Draghi's report needs to be supplemented by other important reports of 2024, like those produced by Letta and Rodriguez-Pose, and even more, like the one delivered in 2023 by Anna Diamantopoulou.[20]

Draghi is also an ally for those who are keen to save the EU Green Deal as a policy package for climate protection and sustainability. Contrary to public perceptions, this should have been primarily an investment programme and only in second place a regulatory one. It will remain a progressive responsibility to ensure that, while its bathwater is thrown out, the Green Deal can live and deliver the necessary measures for environmental and climate sustainability.

Altogether, Draghi managed to outline a comprehensive plan, and the discourse around his report spread the news about the EU economy being in crisis and that the leadership has a revival plan. But, just like many other reports, this one has also highlighted the gap between talking the talk, on one hand, and very intense inaction on the other hand. In 2024, competitiveness has been confirmed as part of the catechism of the EU, and in the person of Mario Draghi, a pontifex has also emerged.

20 Directorate-General for Employment, Social Affairs and Inclusion (2023) "The future of social protection and of the welfare state in the EU". Publications Office of the European Union, DOI: 10.2767/35425