LUISS

Institute for European
Analysis and Policy

# The Draghi Report: Let's not waste a great opportunity

**Riccardo Perissich**

Policy Brief 12/2024

September 18, 2024

# The Draghi Report: Let's not waste a great opportunity

**Riccardo Perissich**

I do not think it is common, except for professional reasons, to reach the end of a very complex text of about four hundred pages on Europe's industrial policy. Nevertheless, I do recommend reading Mario Draghi's report in full; if only to correct some misleading messages that emerge from journalistic presentations and that are then translated into too hasty political reactions.

To begin with, despite the deliberately dramatic and sometimes peremptory tone with reference to an "existential challenge", the content of the report is not particularly revolutionary either in its analysis or in its proposals. The analysis of the growing gap in growth, competitiveness, innovation and productivity between Europe and its main competitors, America and China, has been widely shared for some time now. However, the report contains messages that are always useful for European operators, such as the reminder that there is little point in producing innovation if the conditions for its diffusion on the market are not created. Even the proposals, with a few exceptions, are not particularly new, even if some of them do not meet with unanimous consensus. In some cases, they are already found in proposals formulated by the European Commission or hinted at in Ursula von der Leyen's (UVDL) first programmatic declarations; others emerge from the debate of recent months, for example in the previous report on the completion of the single market presented by Enrico Letta. Having a text that clearly and coherently presents the whole analysis of the challenge we are facing, its causes and also the possible remedies, is instead a novelty. Of course, it is always possible to indicate other issues that would have been useful to address, but it is undeniable that all the real priorities are lucidly expressed.

Another undoubted merit of the report is to have clearly and without ideological prejudice established a fair balance between the decarbonisation objectives that Europe had set itself at the beginning of UVDL's first mandate and the need to maintain the competitiveness of the European economy, a competitiveness that is a condition for achieving growth rates without which neither social peace nor the financial resources necessary for the transition will be available. It is a balance, that between growth and climate transition, that had been taken too much for granted in the previous legislature, to the point of weakening the political consensus of an electorate "more worried about the end of the month than the end of the world". The change outlined was moreover anticipated in UVDL's first programmatic declarations at the time of her reconfirmation and is consistent with the result of the recent elections for the European Parliament. Draghi's report gives it the substance of a coherent plan.

## 800 billion per year

Given the complexity of the analysis, it is a real shame that many presentations that have been made of the report are summarised in a simple formula: to restore Europe's competitiveness approximately 800 billion euro per year of investments will be needed, 4% of GDP or double the Marshall Plan, which will have to be at least partly covered by new massive European loans on the market. Such a summary of the message could not but provoke a strong rejection reaction from some German officials, and not only.

The last thing Europe needs is an ideological clash between Keynesians and rigorists, and that is certainly not Draghi's message. The suggestion, which is not coded, that part of the required investment could be financed more efficiently in common comes at the end of a very complex analysis of the measures to be taken. After all, the logic of the reasoning suggests that this joint financing would not make much sense if certain conditions are not first met, the most important of which are putting an end to the fragmentation of national measures, completing the internal market and reviewing the priorities and methods of disbursement of the EU budget. Above all, it can be deduced from Draghi's analysis that it makes no sense to talk about common financing if progress has not first been made towards the unification of the capital market and the completion of the banking union (a priority already contained in the Letta Report), with the Commission's review of the application of the rules for the protection of competition, and some consequences to be drawn in terms of trade policy; without neglecting the key factor of the availability of human capital suited to the challenge. As for the protection of competition, those who have worked a little with the European Commission's DG COMP know that some of the proposals will provoke debate and controversy, but they do not contain anything truly radical; if anything, just an evolutionary interpretation of current practices, with the possible exception of the proposal not to limit oneself to "ex ante" remedies in the examination of plans to merge companies, to also provide for "ex post" remedies in some cases.

The international dimension and in particular trade policy are often addressed indirectly. The report fully takes into account the impact of new geopolitical factors in defining the priorities and instruments of industrial policy. The opportunity to collaborate with our allies, within the G7 and beyond, in the field of reorganising production chains and critical raw materials, is mentioned but not explored in depth. A certain scepticism is evident, but not argued, regarding the prospects of the CBAN, the border compensation mechanism provided for by European legislation to limit the distorting effects of imports that do not comply with European provisions on CO2 content. However, the intention to include clauses in trade agreements that oblige emerging countries to follow the European example in decarbonisation policies is reaffirmed, an approach that risks being often unrealistic and hiding other protectionist designs. The accusation of protectionism that has been leveled at the report is, however, excessive. The approach is generally pragmatic and contains the invitation not to delude ourselves into thinking that we can stimulate decarbonisation technologies for which Europe has already "missed the bus" by blocking imports of more efficient competitors, for example those of China. Behind this problem there is an aspect that the report does not address: the implications of the conceptual and political gap in the decarbonisation policies of Europe and the USA. There is a mix of regulation and taxation of CO2 by the European side and a massive use of public incentives by the American side. The validity of the two approaches can be discussed at length. The fact remains that American policy, even if perhaps more expensive and less rational, is more effective in attracting European investments as well.

## The dilemma of rules

This leads us to consider what seems to me to be the heart of the report: the system of rules that Europe has given itself. Without denying the sometimes pioneering importance of European regulation, the report does not avoid criticism of excessive bureaucracy and the somewhat excessive practice of the "precautionary principle", which involves an implicit aversion to risk with negative effects on innovation. The analysis of the causes is precise and without concessions. It includes, for example, the effect of the confusion created by rules decided in different areas, the divergent and often redundant application (gold plating) of directives by member states, and the lack of coordination of national authorities responsible for regulation. In this regard, the report indicates the way to combine a push for the centralisation of regulatory functions, for example in matters of the digital economy and the functioning of the capital market, with an invitation to systematically lighten the burden of regulation in all sectors in order to make it more compatible with the needs of competitiveness. Again, this is an approach already outlined by UVDL in her first programmatic declarations.

## The "what" and the "how"

Aside from the criticisms, and there are several, for example regarding common funding, even the broad consensus with which the report was welcomed has often been accompanied by a certain dose of scepticism about the possibility of all this becoming reality. The causes are known: a certain widespread default in European society in the face of the effects of the pandemic, the increasingly turbulent international situation and the growth of populist movements, the political weakness of some important governments such as the French and German ones, and the heaviness and inadequacies of the EU institutional system often incapable of overcoming national egoisms.

The report deals, albeit summarily, with the problem of the necessary "governance". Hoping for an extension of majority voting is in such a context almost ritual, together with the awareness that now is not the time for a revision of the treaty. The hope is therefore accompanied by a more pragmatic approach that consists in progressing if necessary between a more limited number of countries. Much attention is instead dedicated to the need to make existing procedures faster, more effective and better coordinated; the proposals for new coordination procedures are so numerous that at times one fears that they will lead to an increase in the bureaucracy that one would like to combat. It is in this context that the proposals, generally very well argued, for greater centralisation of decisions are situated. Significant, even if present in the Commission's other recent initiatives, is the proposal referring to more than one sector to use a certain degree of centralisation of public procurement for industrial policy purposes.

At this point the question arises of what follow-up to give to the report. The ambition to make it a sort of "government programme" for the next legislature is probably illusory. The EU is not in the political conditions and does not have the appropriate institutional structures to equip itself with a similar government programme. The parallel would be with the programme for completing the single market promoted in the 1980s by Jacques Delors, but it was a project, despite its ambition, of a more limited scope and less intrusive of some important aspects of national sovereignty. Moreover, the very nature of the programme outlined by Draghi does not lend itself to a global agreement. It is an industrial policy project, which Draghi rightly divides into ten priority sectors, each with its own characteristics and needs. The proposals and related negotiations will therefore have to be specific and structured by sector. Even with regard to the "horizontal" themes identified in the report (promotion of innovation and human capital, regulation, financing), each sector will have its own needs. What is necessary, suitable and possible in defence matters is by definition different from what concerns energy or the digital economy. Demonstrating the necessity of the proposed measures according to the specific merits of each will be particularly important if we want to obtain consensus on joint financing proposals. The experience of the NGEU and the Italian delays suggests that consensus cannot be based on considerations of solidarity, but will need to be demonstrated as useful to make the investment more productive and less costly. Of course, overall coherence will have to be maintained; this is above all the Commission's task. If it wants to take the report seriously as a basis for its new mandate, it must organise its structure accordingly. The indications provided by UVDL on the portfolios of the Commissioners and the missions of the vice-presidents seem to go in this direction. But everything will depend on the implementation.

The main problem is how to overcome the widespread pessimism and demonstrate that the project is realistic and feasible. From this point of view, there are perhaps two lessons that can be drawn from the aforementioned experience of the Delors project. Both concern the need to overcome the natural reticence of governments to cede sovereignty and to renounce their protectionist instincts for fear that others will take advantage of the openings. Every complex project implies priorities, but it is often overlooked that the time sequences of the initiatives are sometimes more important. To give credibility to a project, it is often useful to achieve success as soon as possible, even if it is modest, to show that progress is possible. Nothing creates trust and silences pessimists like the perception of movement. Reaching simple agreements constitutes a premise for setting up more complex negotiations. Eliminating the constraints linked to ESG regulations that slow down the financing of the defence industry is certainly less difficult than reviewing the regulations relating to collaborations of the military industry, but it would serve to create trust for more ambitious goals. The same is true in all sectors. Similar principles also apply to decision-making processes. Creating credible and virtuous agreements between a limited number of countries can be a very effective means of demonstrating that vetoes are a blunt weapon.

The second lesson that can be drawn from the experience of the Delors project is that nothing would have been possible without massive support from European industry. Without it, the reticence of the states would not have been overcome. In turn, active support from the business world increased and strengthened when it was seen that the Commission was able to achieve results. The same virtuous circle would be necessary today and would allow us to address with more confidence issues such as the unification of the capital market and common financing with the issuance of new European debt that currently seem insurmountable. This should be one of the Commission's major concerns. For example, it is likely that among the most urgent measures, even before addressing the issues of financing, there is the need for concrete signals of the desire to ease regulation and a radical intervention in the mechanisms for setting energy prices on the European market. Moreover, since this is an industrial policy operation, success will not be measured by the number of decisions taken by public authorities, but by the operation's effects on the capacity for innovation and on the productivity of European industry, as well as on the progress of the transnational consolidation deemed necessary by the Draghi Report. Let us not forget that the success of the operation desired by Delors was largely due to the fact that companies, once they had acquired confidence in political processes, began to anticipate their decisions.