CENTRE FOR EUROPEAN REFORM
LONDON ★ BRUSSELS ★ BERLIN

Press release

Draghi's plan to rescue the European economy: Will EU leaders do whatever it takes?

Mario Draghi has just launched his long-awaited report on the ailing European economy. The report should serve as a wake-up call to EU leaders who have long failed to confront Europe's declining growth rate head-on.

A new CER policy brief '[Draghi's plan to rescue the European economy: Will EU leaders do whatever it takes?]' assesses the key aspects of Draghi's report. It covers its diagnosis and proposals to boost innovation, reform industrial, competition and trade policy, lower energy prices, and foster common defence capabilities. CER experts also look at Draghi's suggestions on how to finance the necessary investments.

Draghi's diagnosis is hard to dispute. Europe's innovative capacity and business dynamism are declining compared to other advanced economies, while energy prices remain high. Europe faces growing competition from Chinese firms backed by state subsidies, geopolitical tensions and a continued reliance on imported energy. The EU cannot afford to procrastinate in addressing these problems.

Draghi rightly identifies Europe's competitiveness challenge as being about boosting productivity. The report sensibly concentrates on boosting innovation through more joint decision-making for research funding, unblocking the EU single market and unburdening it from overregulation and promoting capital market integration. His proposals to lower EU energy prices and enhanced EU co-ordination in defence are also useful, even if member-states remain reluctant to cede sovereignty.

One of Draghi's key contributions is shifting the European narrative on industrial policy from a yes-or-no to a nuanced when-and-how debate considering the characteristics of each industry, its prospects, and its strategic value. In doing so, Draghi is advocating for a tougher EU line on China's mercantilism, and closer alignment with the US, without succumbing to a protectionist turn.

The report, however, suffers from three weaknesses. Some of his proposals risk making EU competition policy less predictable. On governance, closer co-ordination between member states is unlikely to accelerate slow decision-making, or to help the EU withstand pressure from external powers. Draghi makes a compelling case for the EU to close its annual private and public investment gap of around 4.4-4.7 per cent of GDP (€800 billion). But scaling up the EU budget and redirecting its spending to innovation and strategic priorities has repeatedly proven impossible to do. So, some common debt may be unavoidable, but it remains controversial, even if Draghi suggests it should mainly be used for breakthrough innovations and cross-border energy infrastructure that can lift tax receipts.

Some of Draghi's proposals are ground-breaking while others have been in the EU debate for a long time. The report's vital contribution is that it brings them together into a coherent blueprint for an EU growth agenda – one that recognises hard truths and trade-offs. Immediate outcries from German politicians stumbling over Draghi's reference to common debt do not bode well in this respect, even as Germany, as the EU's stagnant industrial powerhouse, would be a main beneficiary from an EU growth agenda.

Sander Tordoir, chief economist at the CER said: *"The €800 billion question is whether EU member-states will rise to meet the Draghi challenge, or succumb to the narcissism of their differences and face a "slow agony" of fading economic growth and heft."*

"The Draghi report is the ultimate push to shift the EU debate on industrial policy from a yes-or-no dichotomy to a nuanced when-and-how discussion considering the characteristics of each industry, its prospects and its strategic value," said Elisabetta Cornago, a senior research fellow.

"In reforming competition policy, Draghi's proposals are mostly cautious and are certainly not a ringing endorsement of European champions. However, his suggestion to wave through more mergers based on promises about future investment and innovation need more thought. They could create irreparable harm to competition, without European consumers enjoying any of the benefits," said Zach Meyers, assistant director, CER.

Luigi Scazzieri, senior research fellow, said: *"Draghi's call to strengthen the EU's defence industrial base is one of several recent proposals in that direction. But serious funding will be needed to overcome barriers to co-operation."*

"Draghi's push for increased co-operation with the US and coherence between industrial policy and trade is welcome. But on both counts, the report pushes the boundaries of WTO rules. The EU will have to debate if it's willing to go beyond the WTO norms, and if not, how to square the circle between transatlantic cooperation and WTO adherence," said Aslak Berg, a research fellow.

Notes for editors:
For further information on the new research and to request an interview with any of the authors, please contact Octavia Hughes in the CER press office on pressoffice@cer.eu or +44 (0) 20 7233 1199.

The Centre for European Reform is a think-tank devoted to making the EU work better and strengthening its role in the world. The CER is pro-European but not uncritical.
Follow us on X: @CER_EU on BlueSky: @centreeuropeanref.bsky.social on Threads: @cer_eu