THE DRAGHI REPORT: NEW MATERIAL IN OLD CLOTHES

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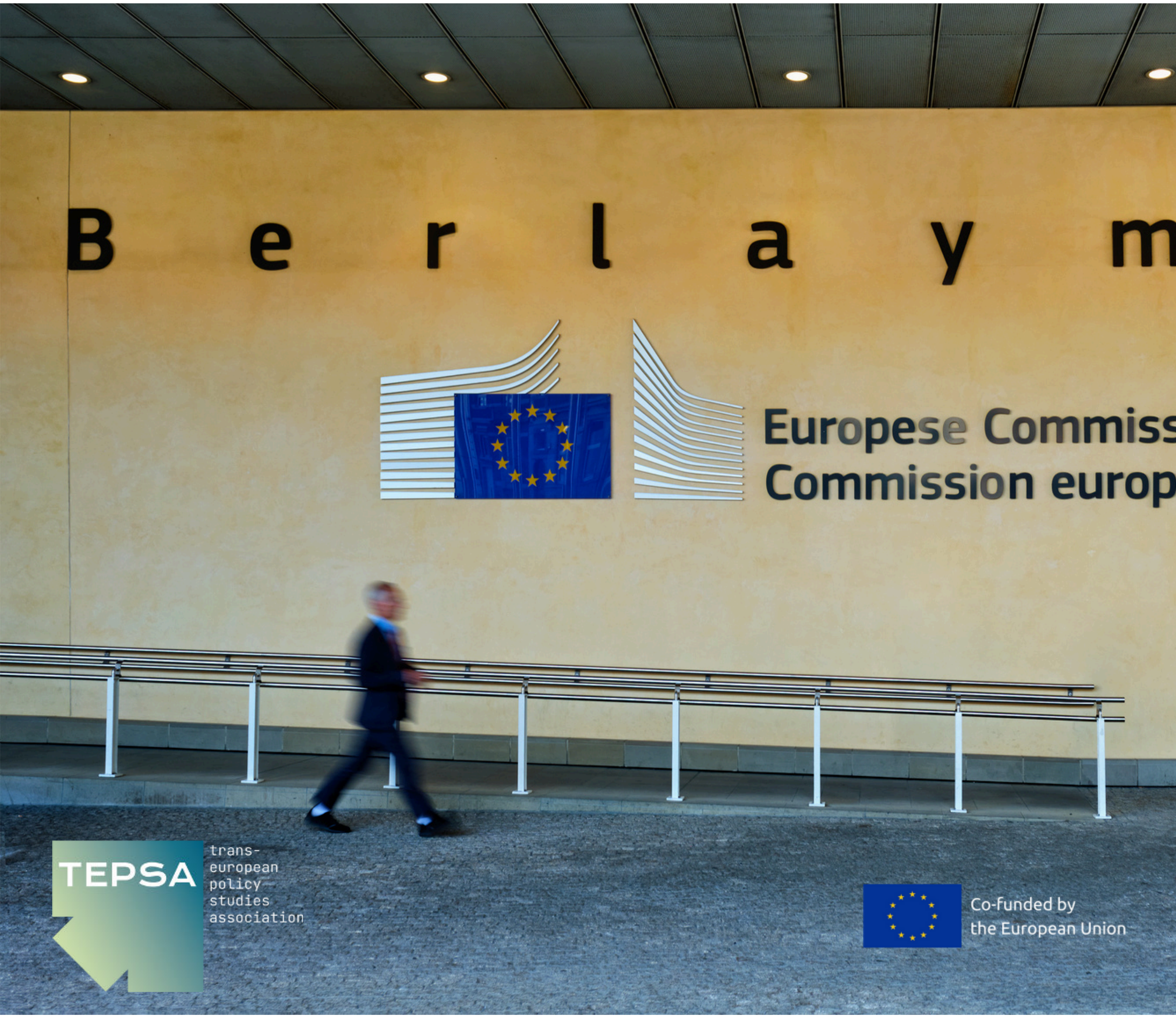

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Usually, policy-relevant reports tend to present old material in new clothes. With the Draghi report, it is the other way around: it contains interesting new material, but unfortunately presented in very old clothes. By "new", I mean innovative accents compared to narratives of other European Union (EU) policy documents.

I shall illustrate this below in three ways. First, despite considering GDP growth as a top priority, the Draghi report provides all the elements leading to the need for policy-making to free itself from the obsession on this indicator in favour of other objectives, such as sustainability, resilience and strategic autonomy. Second, the Draghi report clearly shows that some of today's challenges flow directly from past EU action, notably the liberalisation of energy and telecommunication markets. This unveils the need to reflect on the limits of market-based policies, as well as to strive to develop a new *modus operandi* and a true strategic capacity, which goes much beyond budgetary issues. Last, despite remaining stuck in a deficit model *vis-à-vis* the United States, the Draghi report shows the need to develop geopolitical maturity, to ensure Europe's basic needs while contributing to a more stable geopolitical environment.

On the need to let go of "boosting GDP growth" to favour strategic autonomy, not to mention the implementation of the European Green Deal

The (very) old clothes of this report are the obsession of raising GDP growth through productivity growth, itself supposed to flow from technological innovation. This fixation on innovation and GDP growth goes back to the mid-80s. Since then, 'lagging behind' is perceived as an existential challenge, as if living in a non-dominant position equates to disappearing in a black hole. First, this must raise strange feelings for readers from countries 'lagging behind',[1] and second, it unveils the inability of European policy-makers to visualise a world where the EU is not dominant. The European reading grid of relations is indexed on domination: either one dominates or is dominated, no in-between, no room for peer-to-peer relationships.

This obsession with GDP growth is a dangerous vehicle for magic thinking and disconnection of policy-making with reality. A massive proportion of investment needed, both for the green transition and for defence, are not productivity-enhancing and, consequently, will not boost GDP growth[2]. Thomas Piketty made clear in his *Capital in the Twenty-First Century* that GDP growth in mature economies, which are not in catch-up

[1] This point is well developed by Olivier Blanchard and Ángel Ubide in their article 'Essential issues raised, but not fully answered by the Draghi report'.
[2] The Pisany-Ferry & Mahfouz report is much better at confronting the economic dilemma and challenges brought about by the green transition, while the Draghi report stays in this magic new growth narrative.

or recovery modes, stands at 1.5% and is highly connected to demographic trends.

The report states clearly that labour force will be shrinking in the EU and that this will have an impact on GDP growth. Although the demographic challenge has been widely acknowledged in the previous Commission mandate, the fact that a shrinking workforce will be a bottleneck for economic growth is not yet embraced, as if demographic trends could be offset by technological innovation and skills strategies.

Indeed, the margin by which policy-making can 'boost' GDP growth is rather limited. From an ironist perspective, one might say that it is good enough for policies not to provoke degrowth or recession. This does not mean that policy-makers can ignore GDP and its growth, but rather that they should consider GDP growth as a parameter, not as an objective, as stated by Kate Raworth in her book *Doughnut Economics*. Finally, this obsession on GDP growth is misleading, as it may blur the fact that policies needed to strengthen the EU's resilience and strategic autonomy may precisely be *different* from the policies adopted in the previous decades with the declared aim of 'boosting growth'.

On the need to shift focus from market-based policies to an effective strategic capacity

The Draghi report recalls that the path to carbon neutrality chosen by the EU is steeper than the ones chosen by the US and China, and it demonstrates convincingly that this requires much more strategic planning than currently foreseen. Far from the classical "more needs to be done" often written in Commission communications, the Draghi reports posits that EU policymaking should change its *modus operandi*.[3]

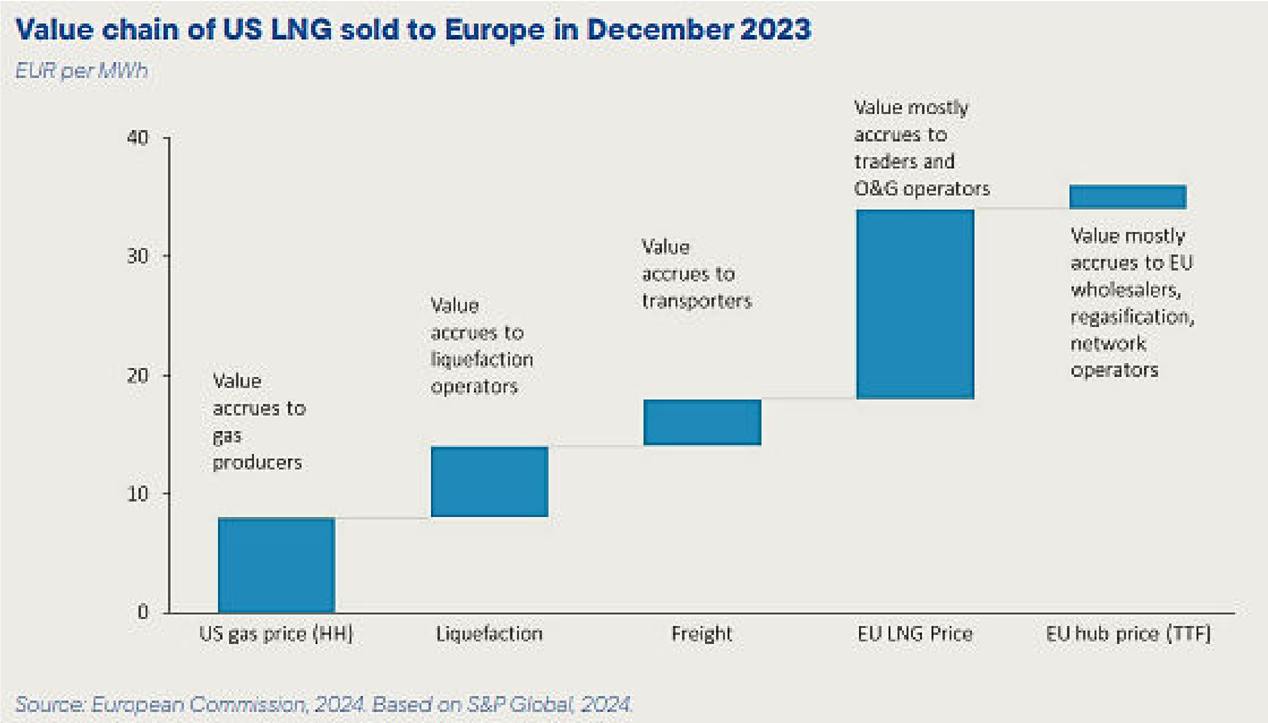
It is a feature of technocracy to pretend that past actions were always the best option available, and that it is only new 'unexpected' circumstances that call for reform. Digging into the very rich and informative part B of the report, it is striking to note that some root causes of the EU's competitiveness gap are simply direct consequences of past EU action. The report flags energy and telecommunications market organisations as "root causes of EU's competitiveness gap." It points also to incoherent (automotive) or easy-to-circumvent legislation.[4] A graph on price formation of US liquefied natural gas into natural gas in the EU, [5] shows that traders and oil and gas operators capture by far the biggest part of the chain value. Is it normal that financial intermediations end up cannibalising the chain value of a vital product for the whole economy?

In this manner, the report makes clear that some problems arise not because of a *lack* of EU action, but because of *past* EU action. This is not to condemn the EU *per se*, of course! However, the EU would be stronger if EU policy-makers were able to step out of the framing whereby there is only one way to be 'pro-EU', and any other approach or recommendation is disqualified as 'anti-EU'. The issue of the budget and the common debt is far from being the only one that is worth a democratic debate within the EU. By focusing on the need to agree to make decisions, there is a tendency to nurture a deep avoidance of debates, as these are always considered disputes, and thereby obstacles to EU unity and action. This avoidance of

[3] This can be done to a large extent '*à traités constants*'.

[4] See 'The Future of European Competitiveness: Part B | In-depth analysis and recommendations', pp. 103-104

[5] See 'The Future of European Competitiveness: Part B | In-depth analysis and recommendations', p. 27 and reproduced in-text.



debates paves the way for conformism and prevents smart dialectical conversations that could lead to solutions drawing from the richness of diversity.

When I read in the automotive chapter on the report that "the EU's supply chain is taking time to adjust"[6], I remembered Nicolas Hayek, whom I had the privilege to meet 35 years ago, when I was in charge of industry in Commission President Jacques Delors' advisory group. Hayek was the Swiss industrialist who put the Swiss watch industry back on its feet, countering all the mantras about the impossibility of doing so because of labour cost differentials, notably between the EU and Japan. Hayek called on the Commission to not always take industry complaints for granted. Furthermore, notably, he encouraged it to challenge industry's propensity to reap benefits in the higher segments of the market, while losing ground in the lower segments, where volumes are high but profit margins are lower. He was criticising the lack of a long-term strategic approach, not from policy-makers, but from European industrial leaders, especially in automobile and semiconductors. He was advocating for the Commission to confront industrial leaders, with a more dynamic relationship, supporting it *and challenging it*, at the same time, to ensure that industry contributes to public policy goals (social and environmental), while striving to remain competitive on European and global markets.

Reading between the lines of the Draghi report, this type of dynamic constructive relationship emerges as even more essential today, given the need to boost Europe's resilience and strategic autonomy. It is not only about mobilising funds and setting objectives. We need to face the fact that the EU has not been good in achieving goals set by previous strategies. Strategy has become a word without teeth, which is demonetised because of its failure to make a difference in the past. It has become what the EU does when it cannot or does not want to regulate. The shift called for by the Draghi report requires the acquisition of an effective strategic capacity, and this, in turn, calls for a deep cultural change in the curation of interactions

[6] See '[The Future of European Competitiveness: Part B | In-depth analysis and recommendations]', p. 146

with stakeholders - notably industry, but not only - and between institutions.

On the need to acquire geopolitical maturity

The Draghi report - as the 2024-2029 Political Guidelines of Ursula von der Leyen - refers to the global environment as a given, totally denying the role of the EU in the evolution of this environment. For example, one reads on page 1, part A of the Draghi report: “Europe has abruptly lost its most important supplier of energy, Russia.” Did Europe lose it? Or did it choose to stop buying Russian oil and gas for geopolitical reasons? Another example, later on the same page: “geopolitical stability is waning”. Note the use of passive form. On page 50, “While dependencies are a two-way street, Europe is vulnerable to both coercion and, in extreme cases, geo-economic fragmentation.” Therefore, coercion by others and geo-economic fragmentation are presented as something falling from heaven...

In the same vein: “Around 40% of Europe’s imports are sourced from a small number of suppliers and difficult to substitute, and around half of these imports originate from countries with which it is not strategically aligned. As a result, Europe’s notional *exposure to any “sudden stops” in trade caused by geopolitical conflagration* is high. However, absent *an extreme unforeseen scenario*, a profound and rapid decoupling of global trade seems unlikely in the medium term.”[7] The geopolitical context is considered a given created by others, with no responsibility from the EU. By highlighting that competitiveness relies heavily on energy prices, which are significantly higher in the EU since the decoupling from Russian gas, the Draghi report shows that the EU’s geopolitical decisions have consequences - and not only desirable ones. Incidentally, the same applies to sanctions. However, this is usually downplayed, as expected impacts are put forward much more than risks and potential negative consequences. It would be time for the EU to make a link between this geopolitical context and its own agency. This is a basic condition for acquiring geopolitical maturity.

Another essential condition is to ensure that Europe’s foreign policy is not only envisaged in terms of security and defence but is completed by a ‘second leg’, i.e. active diplomacy rooted in a vision of a global order that can meet the legitimate aspirations of actors beyond the EU and US. This requires managing the complementarity and tension between EU and national competencies in a constructive way, in a ‘team Europe’ approach, building on the diversity of Member States’ sensitivities and capacities.

A third condition to acquire geopolitical maturity is an actualisation of the EU-US relationship, and this will be even more unavoidable in light of Trump’s return to the White House. The Draghi report presents the productivity gap with the US as the first and main source of concern. Is this really the case? This ‘deficit model framing’ of the challenge compared to the US leads to the implicit vision that all solutions should have the EU mimicking the US, i.e. be big and one. This is a very superficial and unrealistic approach to the EU, which will never be like the US. Aspiring to be like it can only hold the EU back from its potential, both internally and globally. It feeds a form of alienation vis-à-vis the US and deprives the EU of developing its own vision for a renewed global order, building on its own specificity and strength, out of what it is, and not what it dreams to be. Indeed, for the EU, getting its act together as a geopolitical actor can only be achieved by nurturing its relational and genuine identity.

[7] Emphasis added.

Conclusion

Interdependence cannot be avoided. But it is our responsibility to care for our own security, understood in the wide sense of the term, as it is for each global actor. Nobody but ourselves can be held responsible for having overlooked economic security concerns when we have been ardent promoters of multilateralism and growth in the past decades. Caring for our own economic security is fully legitimate but does not need to go with blaming others.

Thanks to the quality of the diagnosis, the Draghi report provides the basis for a strategy where the EU can - *at the same time* - increase its security and resilience, on the one hand, and ease the geopolitical tensions, on the other hand.

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