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Draghi's €800bn call to action: instilling the urgency that Europe needs

Former ECB President Mario Draghi's 400 pages of economists' 'greatest hits' and a few more controversial proposals provide Europe's most comprehensive plan yet to revive its economy, decarbonise and become more self-sufficient

Former ECB President Mario Draghi

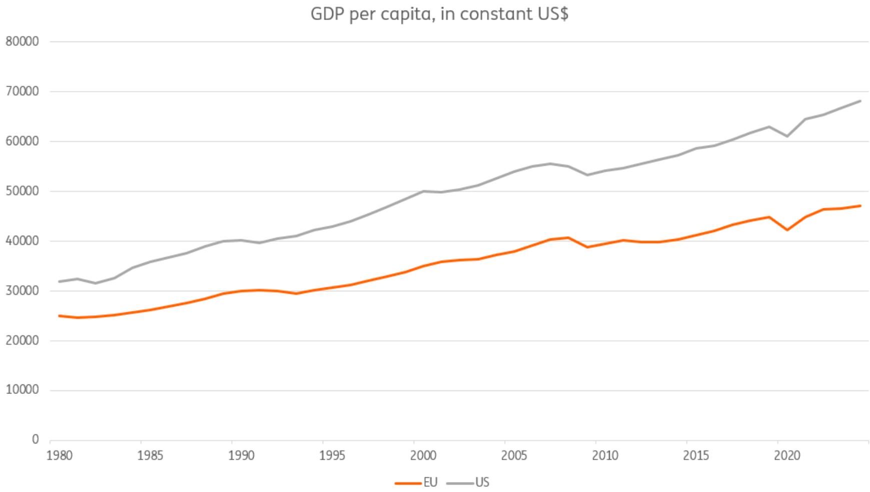
The loudest call for an economic overhaul so far

During Draghi's time as ECB president, he consistently called for more structural reforms and investment in European economies because he was concerned about low potential output growth. More than a decade has passed since he began his role in Frankfurt, and the challenges to European competitiveness have only intensified. Today, Draghi presented a detailed and comprehensive plan to reinvigorate the EU economy.

The reason why someone as senior as Draghi was tasked with this report is clear. Economic growth in Europe has been weak compared to the US and China for a long time, but the sense of urgency around economic reform outside of crises was lacking. In recent years, the global context around the economy has changed. The energy crisis, increased global competition and geopolitical risks have exposed threats to the European economic model, resulting in a louder wake-up call for change.

This requires complex action unless the EU wants to face “a slow agony” according to Draghi. We largely agree with this analysis, having long highlighted the sluggish underlying growth in Europe, lacklustre investment and struggling productivity growth.

GDP per capita in the US has steadily diverged from the EU



Source: IMF World Economic Outlook

Unlocking €800bn per year of investment

The plan is ambitious in scope, yet it includes many proposals that economists familiar with Brussels might consider their “greatest hits,” along with some measures already implemented at the national level. To achieve an investment boost of €800bn per year (some 5% of EU GDP), Draghi's calls include:

- Common funds for joint investment in key public goods, funded through Eurobonds to allow for common public investment.
- A more complete single market, including in the services space to allow for the scaling up of companies.
- Completion of the banking and capital markets union to unlock more private investment.
- More lenient competition regulation at the EU level, which would have to allow for European superstar firms to be able to thrive like American and Chinese examples.
- An overhaul of the EU budget, reallocating funding towards key strategic sectors.
- An end to veto rights at the European Council to allow for more swift decision-making.

Besides that, many of the measures focus on security and economic self-sufficiency. The report calls for action on high European energy costs and emphasises the need to secure raw materials and strengthen defence capacity. Overall, it advocates for a more unified European strategy at a time when the European economic environment is under threat of losing relevance and many political parties in Europe question the benefits of European integration.

A bold plan but can it result in bold action?

The report presented by Draghi is the first all-encompassing report on Europe’s most pressing economic issues. It is a report richly filled with excellent analysis. The proposed remedies against the current “eurosclerosis” are certainly sensible, but have already raised eyebrows in European capitals. German finance minister Christian Lindner swiftly rejected the idea of Eurobonds.

Indeed, getting political support for the proposed plans will be the biggest challenge in the current political climate. The European parliamentary elections already indicated that the political mood in Europe is rather shifting to less Europe instead of more Europe.

We saw during the Covid crisis that it was possible to let Europe play a bigger role. The European Recovery Funds is an example of how successfully a common European financing instrument, combining structural reforms with investments, can work. However, the last few years have shown that Europe can come together in times of crisis but immediately loses that sense of urgency when the worst of the crisis is over.

The experiences of recent years have highlighted the famous words of two notable European leaders: Jean Monnet's assertion that "Europe will be forged in times of crises" and Jean-Claude Juncker's observation that "we all know what to do, but we don't know how to get re-elected once we have done it." Or put in our words: Europe has learned how to deal with imminent crisis but has a rather disappointing track record in facing a slowly unfolding structural decline.

The initial reaction to Draghi's plans might be summarised as "great ideas but almost impossible to implement, given diverging national interests". But maybe at second glance, Draghi's report could open the door to change. Frankly, the current state of the European economy, the loss of international competitiveness, and the lagging behind China and the US are not only the result of the pandemic, war and geopolitics. They also stem from the euro crisis and the lack of bolder measures. Perhaps someone as senior as Draghi can now instil that sense of urgency that currently seems lacking.

In his most famous speech in which he announced he would do whatever it took to save the euro, he likened the euro to a bumblebee. He called it a mystery of nature because it shouldn't fly but it does. In the current political environment, with more nationalist views on the rise, the best Draghi can hope for is that his proposals end up like his favourite insect.

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