



To the point!

Cross-Asset- and Strategy-Research

Draghi's wake-up call for Europe

His EU-competition strategy offers much that is beneficial. And risky.

This week, Mario Draghi finally presented his long-awaited report on Europe's competitiveness. He is credited with having once saved Europe during the financial crisis with the legendary "Whatever it takes" intervention. This time, the stakes are no less than the restoration of Europe's economic dynamism. Can Draghi turn the tide once again?

Dr. Draghi's diagnosis: Go big or go home

The report vividly documents how Europe is quickly falling behind competitors like the U.S. or China in terms of innovation and productivity growth. Especially in key future sectors like artificial intelligence, pharmaceuticals, and biotechnology, the U.S. is leaving the European Union in the dust. Europe, on the other hand, excels in old industries where demand grows more slowly and technological breakthroughs are rarer. Consequently, productivity growth on the old continent is lower. Thirty years ago, Europe's productivity stood at 95% of the American level. Today, it is under 80%. And keeps trending down. Ouch!

To catch up, Team Draghi is calling for a genuine investment offensive: infrastructure, education, digitalization, research – practically everywhere. Europe would need to invest an additional 800 billion euros annually to keep pace. This would raise the investment ratio from 22% of GDP to 27%, a level not seen for half a century. Should we fail to boost the growth rate, Draghi sees the very foundations of our social model in acute danger.

He's right: The time when Europe could try to convince itself that everything would be fine once all the black swans (pandemic, energy prices, war) have flown away is definitively over.

Groundhog Day for the Eurobond...

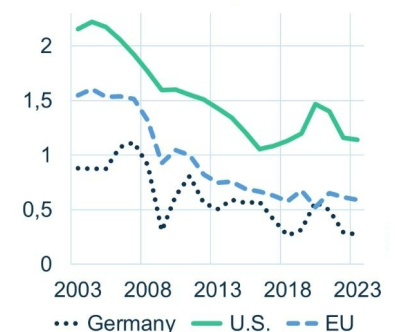
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Europe is falling behind economically

Productivity growth per employee (10-year average)



Source: OECD, LBBW Research

To finance this, he suggests expanding the EU-wide collective debt, essentially a Corona recovery program on steroids. A plan that has neither a political nor constitutional chance of realization. And that's just as well, as it is not necessary. The bulk of the investments must come from the private sector anyway. The rest must be shouldered by national budgets. Reigniting the discussion on mutualizing debt would further undermine the already fragile coherence of European politics. And it would strengthen populists and euroskeptics, making reforms and the return of entrepreneurial confidence even less likely. So, hands off!

How investments should be kick-started

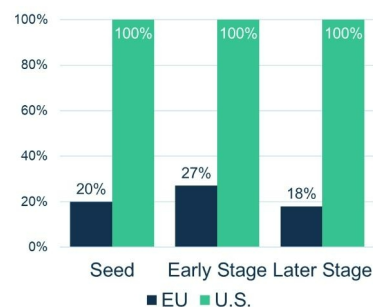
But the private sector is holding back on investments. To stimulate the necessary momentum here, a large-scale rethinking is necessary, a radical removal of investment barriers. Cut red tape, complete the Capital Markets Union, strengthen incentives for work and investment, support venture capital for young companies, and so on. Tedious, laborious reforms, and not as flashy as Eurobonds. But crucial to get Europe moving.

There's also no need for the protectionist industrial policy that seems to be floating in Draghi's mind. The new European Commission should position itself as a reform and liberalization commission. The Draghi plan should only become part of the government program in excerpts. However, it has already done a great service in raising awareness of the problem. After the launch of the report, Europe can no longer pretend and extend. It needs to roll up its sleeves and must do so fast. We should be grateful to Mario Draghi for having instilled a much-needed sense of urgency.

Grazie, Dottore!

Reissue of joint debt? Not a good idea!

Venture Capital Availability (in % of U.S.)



Source: The Future of European Competitiveness (Draghi-Report)

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