The Draghi report highlights that productivity must be the goal for Europe

It’s a challenging moment for Europe. The Draghi report identifies three key areas for improvement.

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By Nuria Mas

The Draghi report on European competitiveness, published in September 2024, was a moment to take stock of the challenges Europe is currently facing. Though Europe remains reasonably well-positioned globally — with a GDP slightly below the U.S.'s but slightly above China's — there are significant threats to guaranteeing our economic security and way of life through this century. From problems with energy supplies and demographic stressors to geopolitics and the puzzle of how to grow our productivity, Europe needs a strong plan.

We shouldn't overstate the problems in the global economy, where growth *is* happening. Much of the slowdown is in China, where growth won't make 5% this year. China needs 6% growth to employ its newest university graduates, and currently its youth unemployment is at 20%. We shouldn't understate the problems either: Europe is stagnating due to population loss, poor productivity and Germany's economic difficulties.

More worrying, the gap between the U.S. and the EU grew by 12% in 2023, 72% of which can be attributed to productivity.

These are some of the issues the Draghi report seeks to address and brainstorm.

Europe and the aging population

The median age in Spain and Germany is over 46 years old. In the U.S. it's 38.5, while African countries run much younger, with median ages such as 19 in Nigeria or 16 in Angola. And this situation is set to exacerbate, with African populations remaining young while Europeans age further in the coming decade.

So rather than kicking productivity further down the road to be the next generation's problem, we need to engage with the fact that the time when we have the most people working is *now.* And likewise, the time to improve productivity is *now*.

Guns or butter: navigating geopolitical tensions

The question is how to improve productivity while maintaining the welfare state that makes Europe such a desirable place to live and work. Moreover, how can we do so while entering a newly militarized, potentially multipolar geopolitical era?

Defense spending is newly a priority again, with the proxy war in Ukraine. Global military spending surged 9% in 2023. It's true that the U.S. is doing the lion's share of the spending (at 40%, with China the next largest spender at 10%), but it's also true that investing in defense often means investing in U.S. companies, at a time when Europe also needs to be growing its domestic competitiveness.

More to the point, where is the money for increased defense spending to come from? This is the classic "guns or butter" debate. The truth is, it is likely to come from the funds set aside for digital transfer and the green transition, though these are also critical projects for Europe.

To avoid this Catch-22, we need to face up to reality: we must, as a matter of urgency, improve productivity.

The Draghi report identifies three key areas to prioritize to improve Europe's standing.

1. Closing the innovation gap

Europe's strength — that it contains multitudes, and that it is the product of many nations deciding to cooperate — can also be its weakness, with money and innovation going to specific regions rather than to where they can do the most good.

When it comes to funding new projects, the EU needs to remember to fund precisely those that have the most potential, rather than German investors prioritizing German projects, or Italian investors Italian projects, or the many other discrepancies that can occur in a multination bloc.

Beyond this, Europe needs to identify key areas where it has a strong likelihood of excelling (for example, healthcare) and funnel resources toward growing them. Essentially, we need to focus on the specifics when it comes to identifying relevant projects, but keep a pan-European mindset elsewhere.

2. A joint plan to boost decarbonization and competitiveness

The war in Ukraine has made combating spiraling energy prices a priority. Dependence on imported fossil fuels and raw materials has left us vulnerable to geopolitical risks and supply-chain disruptions, affecting both energy and industrial security.

Now, more than ever, we need to accelerate decarbonization, and transition to clean energy. This includes investment in energy infrastructure, including renewable grids so we don't lose so much of the renewable energy we capture, and we can even sell it.

3. Increasing security

Security isn't just a question of the wars currently being fought on our doorstep. Europe also needs secure access to many critical raw materials that will be key to the digital and green transitions. Security in this context means not depending exclusively on one source — for example, China provides 100% of the EU's heavy rare earth elements (REE), Turkey 99% of the EU's supply of boron, and South Africa provides 71% of the EU's needs for platinum. The risks are clear. Initiatives like the Critical Raw Materials Act aim to reduce those risks, with objectives such as no more than 65% of a certain material coming from a single country.

For the defense industry, Draghi argues for reducing fragmentation, taking advantage of our size in procurement negotiations and prioritizing "buying European."

Paying for it

Of course, all of these plans will require funding. Draghi estimates €750-€800 billion in additional investment per year (about 4.4% of EU GDP). Can this be paid for?

It can, but we need to make progress in the capital markets union, improve productivity, and for some critical projects — such as breakthrough research, grids and defense — pursue funding through common debt.

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