



The Letta and Draghi Reports: The Only Way to Go, Despite the Hurdles

GREEK & EUROPEAN ECONOMY OBSERVATORY

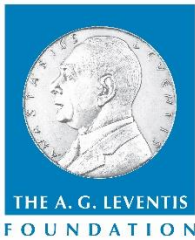
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Summary

- The Letta and Draghi reports begin with the same realisation, though they formulate it differently: that the international geopolitical environment has changed dramatically and that the EU must take immediate action as a result.
- The Letta report's take-home message is that the Single Market must be transformed into something “much more than just a market”. Thus, research, innovation and education need to be integrated into its core, as a “fifth freedom”, and the Single Market extended to include the telecommunications, energy, financial services and defence sectors.
- There is fear at the heart of the Draghi report, fear of the “existential challenge” confronting the EU, which will require an extra €800 billion a year in investment. The report's proposals are articulated around five major horizontal policies: closing the innovation gap, decarbonising the economy and making it more competitive, strengthening security and the defence sector and reducing dependencies in this area, financing investment, and strengthening EU governance.
- The Letta and Draghi reports agree on both the fields where intervention is required and the form such intervention should take. And while they differ in terms of the competition—and, still more, cohesion—policy they prescribe, they do so constructively while their proposals complement one another.
- In relation to Greece, the proposals made in both reports with respect to the defence industry, to reducing energy costs, and to the provision of generous funding for additional investment through —inter alia—joint borrowing, are of the utmost importance.
- No serious disagreement has been voiced with respect to the proposals made in the Letta and Draghi reports, apart from the predictable German reaction to additional

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funding and new joint borrowing, coupled with unfounded criticism of the proposals as 'unfeasible'.

- The "New European Agreement on Competitiveness" adopted in Budapest on 8 November is a critical development, given that it adopts the bulk of the key approaches contained in the Letta and Draghi reports, and sets specific milestones for some, as well.
- The two reports stress that, even if certain recent developments around the world cannot be considered favourable for the EU (political crisis in Germany, economic problems in France, Trump's election in the US), Europe still has the "weapons" it needs to reverse the situation. And while the Budapest summit decision may not have gone as far as the situation demands, it still adopted the bulk of the proposals made in the two reports, making it crystal clear that the European Union has taken the need to regain the initiative fully on board.

Introduction

Looking back at the history of European integration, one quickly realises that its greatest moments were, without exception, preceded by a report highlighting the need for the major changes that followed. The founding of the EEC itself was prefigured by the Spaak report, Lord Cockfield's white paper formed the basis for decisions on the establishment of the internal market, while the Padoa-Schioppa and Delors reports were precursors for the establishment of the EMU. Of course, the reverse is not necessarily true: not all reports necessarily lead to major change. Thus, for example, the McDougall report, which proposed as early as 1974 that the EEC budget should be raised to 5% of the Community's GDP, is still waiting in vain—a full half century later—to finally be heeded.

However, there are multiple indications that suggest the Letta¹ and Draghi² reports will end up being in the first of these categories. And that is because they came about not as an initiative conceived of by certain inspired circles or individuals, but as a logical consequence of rapid geopolitical developments. As noted at the very start of the Letta report: "The Single Market is a product of an era when both the EU and the world were 'smaller'" and must now be transformed into something that is "much more than a market". Mario Draghi, in turn, speaks in rather dramatic tones of an "existential challenge" facing the EU and declares that Europe will lose its very *raison d'être* if it cannot guarantee prosperity, freedom and democracy to its citizens—values that can only be guaranteed if the bloc becomes more productive and changes radically.

The almost jubilant adoption by the Budapest European Council summit of the bulk of the proposals made in the two reports provides an initial confirmation both of their importance and of the role they are expected to play.

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The Letta Report: The Single Market Must Become Much More Than a Market

The proposals included in the report by Enrico Letta, former Prime Minister of Italy (2013-2014), published in April 2024, are bold and at times provocative. The core of his report, summed up in its title, is that the Single Market must be transformed into something much more than just a market. In this context, it proposes expanding the Single Market to include the **telecommunications, energy, defence and financial services** sectors.

The report does not restrict itself to expressing views on the workings of the internal market, and also makes proposals regarding most of the areas in which the European Union is active.

It begins with the need to establish a "fifth" freedom. As a central pillar of this strategy, it proposes that **research, innovation and education** be added to the core of the internal market through the creation of a **European Knowledge Commons**: a centralized digital platform providing access to publicly-funded research, data sets, and educational resources.

¹ <https://www.consilium.europa.eu/media/ny3i24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

² Part A: https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20%20A%20competitiveness%20strategy%20for%20Europe.pdf Part B: https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness%20In-depth%20analysis%20and%20recommendations_0.pdf

It then sets off in search of ways to **finance** the Union's strategic objectives, with the primary goal of **mobilising private capital**. In this context, the report advocates a key change: creating a **Savings and Investment Union** to make use of the **€33 trillion in private savings in the EU** for investment.

Worried about the distortions to competition caused by the state aid economically powerful states make available to national companies, the report proposes “to balance a stricter enforcement of State aid at national level and the progressive expansion of EU-level funding support” and “to envision a state aid contribution mechanism, requiring Member States to allocate a portion of their national funding to financing pan-European initiatives and investments”.

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The Letta report's other potentially trailblazing proposal concerns the need to provide substantial support to **the European defence industry** with funds from the European Stability Mechanism (ESM). On this point, while the author does not hide his preference for the issuance of a **European defence bond**, the report does not actually highlight this course of action, as Mario Draghi would do a few months later.

The Letta report underscores the centrality of both **energy and electronic communications** to any industrial policy. When the Single Market was created, these sectors were deliberately excluded from its scope, as they were considered too strategic to be removed from national control. However, national control is now proving an obstacle to the development and competitiveness of these sectors at a European and global level. As the report takes pains to stress, fragmentation has resulted in **European telecommunication companies having an average of 5 million customers, while the corresponding figure in the US is 107 million and in China 467 million!**

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Similar arguments can be made regarding the need for a common EU approach to **defence**. The inadequacy of Europe's fragmented military industrial complex is becoming increasingly apparent. The report points out that, **of all the military equipment sent to Ukraine by European nations since the start of the conflict, 78% was purchased from non-EU producers!**

The report pays particular attention to the **space industry**, a crucial sector for the development of the Single Market. It also points out that how critically important it now is that the European dimension be incorporated into the **health** sector, particularly in the light of Europe's demographic decline and the likelihood of crises in the future. At the same time, the report underlines the crucial nature of the **transport** sector for realising the full potential of the Single Market.

Data showing that people living in regions that are suffering decline often feel compelled to move by the lack of jobs or access to high-quality education and adequate services, lead Enrico Letta to table new and expanded content for the EU's **cohesion policy**. Letta thus proposes that, while free movement must continue to be guaranteed, so must the **freedom of European citizens to remain in their current place of residence; relocation should be a matter of choice rather than something that is forced upon them.**

As the report highlights, the further development of the Single Market can only be successful if it includes a **social dimension** that guarantees social justice and cohesion, addresses social inequalities, and ensures inclusive economic growth.

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The report also highlights the need to **strengthen digital infrastructure and skills**, on the grounds that the digital economy is a fundamental tool for allowing citizens and businesses alike to realise the full potential of the Single Market, and for ensuring their freedom to stay where they live.

Furthermore, given that most EU SMEs are active in the **services sector**, the Letta report also argues that a renewed commitment to removing barriers to their activity is a necessity. According to the European Commission's own research, **around 60% of the barriers in the Single Market for services identified in 2002 still exist today**.

The Letta report concludes by stating that the dynamism and effectiveness of the EU are currently severely hampered by a number of factors, notably an **excessive regulatory burden and bureaucracy**. For this reason, the report argues, **the mechanism for formulating proposals** must be improved, with consultation procedures and the Better Regulation toolbox streamlined, impact assessments conducted for proposed amendments before the final decision is taken, and other related measures.

The report concludes by urging "the Single Market to go fast and go far", moving beyond Europe's borders.

The report concludes by urging "**the Single Market to go fast and go far**", moving beyond Europe's borders in order to achieve a balance between competitiveness, strategic autonomy and global conditions and to promote strategic partnerships.

Letta's proposals do not stop there, of course. Rather, the full text renders them specific through a host of innovative and sometimes revolutionary suggestions coupled with exhortations that they be enacted without delay. The implementation of most—if not all—of these proposals is presented as a necessary and sufficient condition for ensuring the competitiveness of a united Europe, promoting its strategic autonomy in the new geopolitical context, and, ultimately, securing its economic and cultural survival. For this reason, the report urged the Council "to delegate to the European Commission the task of drafting a comprehensive Single Market Strategy", which it went on to do at the informal European Council summit in Budapest (8 November 2024), at which the Commission was invited "**to present, by June 2025, a new and comprehensive horizontal strategy on the deepening of the Single Market, including a roadmap with clear timelines and milestones**". This is undoubtedly a very important development which must be credited to the Letta report.

The Draghi Report: Europe is Facing an Existential Challenge

The main, dramatic message of the report prepared by Mario Draghi, former Governor of the European Central Bank (2011-2019), former Prime Minister of Italy (2021-2022), which was made public in September 2024, is that the EU is facing an "**existential challenge**". To extricate itself from the low productivity and weak growth which keep it lagging behind the United States and China in the international rankings, Europe needs to invest an additional 800 billion euros per year: representing as much as 5% of EU GDP, this is much higher than even the 1-2% of GDP the Marshall Plan invested in the reconstruction of Europe after World War Two.

Mario Draghi considers the situation to warrant an urgent response. As he points out in the foreword: "We should abandon the illusion that only procrastination can preserve consensus. In fact, procrastination has only produced slower growth, and it has certainly achieved no more consensus."

Covering almost all the critical spheres in which Europe must act, the Draghi report articulates its proposals around five major horizontal policies which should, it argues, both operate in tandem and complement one another: closing the innovation gap, decarbonisation and making the economy more competitive, increasing security and reducing dependencies, financing investments, and strengthening EU governance.

The Draghi report proposes "updating" the respective policies "to reflect the changing dynamics of trade and innovation", so the bloc's cohesion policy keeps up with its efforts to boost innovation and complete the Single Market.

Covering almost all the critical spheres in which Europe must act, the Draghi report articulates its proposals around five major horizontal policies which should, it argues, both operate in tandem and complement one another: **closing the innovation gap, decarbonisation and making the economy more competitive, increasing security and reducing dependencies, financing investments, and strengthening EU governance.** Wanting to underscore that his report is complementary to the Letta report, Mario Draghi states that he has not included a separate chapter on the internal market, because this subject has already been dealt with systematically in the Letta report, which also presents the relevant proposals.

It should also be noted that there is no mention of **agriculture**, because agriculture was the subject of a separate report commissioned from Professor Peter Strohschneider, a figure with whom the European public is largely unfamiliar. The fact that Strohschneider is not a public figure with the international stature of Draghi—or Letta—may be indicative of the (lack of) importance the European Commission leadership assigns to agriculture in relation to all the other sectors examined in the Letta and Draghi reports.

The report's most prolonged cry of anguish concerns the **EU's failure to keep up in innovation**, which Draghi sees as the root cause of the bloc's low competitiveness and productivity. He sees digital technology, in which Europe currently lags behind, as a key factor in the productivity gap between the EU and the US. The report also estimates that European public spending on Research and Innovation (R&I) is significantly below the levels invested by its competitors. To remedy this, Draghi proposes the creation of a **Research and Innovation Union** that would lead to the joint formulation of a common European R&I strategy and policy capable of promoting a "European Action Plan for Research and Innovation". It also recognises the need **to establish European academic institutions at the forefront of global research.**

Mario Draghi has no qualms about sacrificing many of the EU's "sacred cows" on the altar of Europe's future, starting with **competition policy**, which, he argues, has long been aimed in the wrong direction, focusing on competition between Member States rather than on competition between the EU and the rest of the world. He therefore proposes that those aspects of EU competition policy that relate to mergers, state aid, etc. be radically overhauled, so they no longer impede the bloc's ability to compete with the US and China. However, his report does not go as far as the Letta report, which proposes the gradual replacement of state aid with European aid. Rather, it attaches greater importance to removing barriers to mergers, which Draghi blames for Europe's inability to put forth players capable of taking on the global competition.

A similar observation could be made about another of the EU's "sacred cows": its **cohesion policy**. The Draghi report proposes "updating" the respective policies "to reflect the changing dynamics of trade and innovation", so the bloc's cohesion policy keeps up with its efforts to boost innovation and complete the Single Market. The more sceptical **may see this translating into cohesion policy resources being moved away from the original goal of reducing disparities between EU regions and towards more general EU development objectives**³. For comparison, as mentioned above, Enrico Letta proposes "freedom to stay in one's own place", i.e. providing each region with the means to retain its population.

³ This approach is already starting to be applied in the field of defence, at least according to an article in the *Financial Times* (11 November 2024) <https://www.ft.com/content/eb0de7f4-5ba1-460a-a83d-1a7302fc1536>

It should be noted, however, that the Draghi report advocates the **preservation of the European social model**⁴, noting that while the EU should aim to draw closer to the US model in terms of productivity and innovation, it should steer clear of the disadvantages of the US social model.

The Draghi report attaches particular importance to the development of a common European policy with regard to the **defence industry**, and argues that the relevant actions should focus on joint procurement and joint management of industrial defence stocks. It considers that, along with the urgent need to increase overall defence investment, there is also a need for greater cooperation between Member States in the defence industrial sector, as well as for efforts to bolster Research and Innovation. It proposes joint European financing of the defence industry from new EU resources, including Eurobond issues.

...the EU should, [the report] argues, form a genuine Energy Union, so that those functions of the energy market that are of cross-border significance can be regulated at a centralized European level.

As well as calling for the development of the defence industry, the report proposes a **new industrial strategy for Europe** which calls for the Single Market to be fully implemented and for industrial policy, competition policy and trade policy to be more closely interlinked.

Viewing decarbonisation in terms that extend beyond the environment, as a factor that can also contribute decisively to the competitiveness of the European economy, the Draghi report proposes a strategy which, while eliminating carbon emissions, will also provide Europe with the opportunity **to bring down the high cost of its energy**, which is a major obstacle to growth, and to play a leading role in clean technologies, while simultaneously becoming more energy secure. At the same time, the EU should, it argues, form a genuine **Energy Union**, so that those functions of the energy market that are of cross-border significance can be regulated at a centralized European level.

The Draghi report makes bold proposals in relation to the **financing of** the entire plan for boosting EU competitiveness. Finding that the support the EU can provide for both public and private investment is limited by the size of its budget and by the insufficient mobilisation of private capital, Draghi proposes the creation of a **Capital Markets Union** to free up private capital. He goes on to propose that the EU should seek to complete its **Banking Union** in order to boost the financing capacity of the banking sector, and proposes without prevarication that the EU should proceed with **regular bond issuances** to finance joint investment projects among Member States, thereby contributing to its economic and financial integration.

...it proposes extending qualified majority voting to more areas and to consider the possibility of "enhanced cooperation" in areas where it proves hard to pass decisions.

As mentioned above, the Draghi report estimates that the EU needs to **invest an additional €800 billion per year**, i.e. up to 5% of its GDP, a percentage which is far higher than even the 1-2% of GDP the Marshall Plan invested in rebuilding Europe after World War Two. It is proposed that the bulk of these funds come from private capital, although a significant portion is still left over to be covered by European public funds. The proposal that these European public funds should come from the **joint debt issuance** is hugely significant, as such a move mark a further major step towards EU fiscal union.

The Draghi report concludes by underlining the need for a **EU new governance**,² without which the new industrial strategy and the entire project aimed at strengthening European competitiveness cannot succeed. The report proposes that a new **'competitiveness coordination framework'** be created at EU level in the priority sectors, and opines that a **'28th regime'** is needed to allow companies to opt out of national

⁴ "We're still Europe though", Mario Draghi stressed as he presented his report to the European Parliament.

regulatory frameworks and follow rules that apply across the EU. Finally, it proposes **extending qualified majority voting** to more areas and to consider the possibility of "**enhanced cooperation**" in areas where it proves hard to pass decisions.

Similarities and Differences between the two Reports

Even though the Letta and Draghi reports (a) were requested by different bodies (the Letta report by the Spanish and Belgian EU Presidencies, the Draghi report by the European Commission), (b) were compiled by authors with different political backgrounds, and (c) focus on different subject matter (the former on the Single Market, the latter on competitiveness), they converge to such an extent that the value of their findings and—above all—their proposals is rendered virtually self-evident. Indeed, Mario Draghi has said he did not include a chapter on the Single Market in his report because "the Letta report has systematically analysed the key challenges facing the Single Market and provided recommendations"; in practice, however, most of the recommendations on both sides are essentially identical.

Both agree on the need for drastic intervention in the field of financial services, with Letta proposing a Savings and Investment Union and Draghi favouring a Capital Markets Union.

Indeed, though formulated differently, both begin with the realisation that the global geopolitical environment has changed dramatically and that the EU must take immediate action to meet what Mario Draghi calls the "existential challenge". They largely coincide in terms both of their proposed fields of intervention and the interventions they advocate in those fields.

Both agree on the need for drastic intervention in the field of financial services, with Letta proposing a **Savings and Investment Union** and Draghi favouring a **Capital Markets Union**. Their common goal is to mobilise private capital on a grand scale in order to finance the investments Europe needs to make.

The two reports also agree that the main obstacle confronting Europe is the **fragmentation of the Single Market**, particularly in the energy, telecoms and defence sectors, while both also make concrete proposals for tackling the issue.

Another common goal is **eliminating the use of coal** for energy production and **reducing energy costs**.

...the reports coincide, too, in attaching great importance to Research and Innovation.

Both reports also place considerable emphasis on joint defence procurement and on the strengthening of the **European defence industry**, which will have to serve as the engine driving the EU's overall industrial and economic development and the bloc's efforts to achieve strategic autonomy.

In addition, the reports coincide, too, in attaching great importance to **Research and Innovation**. Letta views it as a "fifth freedom" in the Single Market, while Draghi considers the EU's deficiencies in this area to be the primary cause of the growth gap that has opened up between the bloc and the US.

The two reports also contain common references to, and views on, the importance of and need to promote the **digital transition, transport networks** and **Space-related actions**, but also the need for meaningful interventions that address both **skills gaps** and the **governance deficit**.

It is worth nothing that the two reports differ in terms of the competition policy they prescribe, but do so constructively and with proposals that complement one another.

Letta and Draghi—the former less daring in his formulations, the latter more direct and on the nail—also agree on the need for **new joint borrowing** to provide the European public funds required to finance part of the **EU's investment deficit**. Draghi estimates the total size of this investment deficit at **800 billion per year**. The remaining—larger—part of this deficit will have to be covered by private funds.

It is worth nothing that the two reports differ in terms of the **competition policy** they prescribe, but do so constructively and with proposals that complement one another. The Letta report considers the misuse of state aid to distort competition and therefore proposes, in addition to the stricter enforcement of state aid regulations, the creation of a European State Aid Contribution Mechanism. This mechanism would oblige Member States to contribute part of their national state funding to a common fund for financing pan-European initiatives and investments. And though the Draghi report does not make a comparable proposal, it still attaches considerable importance to the mergers aspect of competition policy, arguing that if European firms are to emerge as international leaders, especially in the tech field, it will require flexibility in relation to the clearing of mergers and to companies acquiring "dominant positions".

Both reports represent radical departures which, if adopted, will turn European competition policy into a key tool for promoting both the overall development of the EU and its economic and social cohesion.

The two reports are more differentiated when it comes to European cohesion policy.

The two reports are more differentiated when it comes to European **cohesion policy**. As mentioned above, the Letta report views economic and social cohesion as a crucial element of the new form of Single Market it proposes. The new and broader content it imbues this cohesion with focuses on European citizens' freedom to remain in the area they call home; it therefore complements—rather than impedes—the four currently guaranteed freedoms of movement: of persons, goods, capital and services. For its part, the Draghi report proposes "**updating**" **cohesion policy** so its programmes "reflect the changing dynamics of trade and innovation". **This may translate** into cohesion policy resources being redirected towards more general EU growth objectives—as the previous Lisbon and Europe 2020 strategies suggested—and thus into a shift away from the policy's original objective of reducing disparities between EU regions. (We noted above that this proposal is already finding application in the field of defence—according, at least, to a recent article in the *Financial Times*.)

What remains to be seen, of course, is whether a strict and above all unilateral adherence to the traditional principles of cohesion policy is the best response to the new challenges. Already, the proposals being put forward by the European Commission's Committee of Wise Persons on the Future of Cohesion Policy⁵ no longer insist on this.

What the Letta and Draghi Reports Mean for Greece

Regarding the significance of the two reports for Greece specifically, over and above their obvious importance for the country as an EU member state, we could focus on the specific proposals for:

⁵ https://ec.europa.eu/commission/presscorner/detail/el/pres_00_900
<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:en:PDF>
<file:///C:/Users/30697/Downloads/forging%20a%20sustainable%20future%20together-KN0623048ENN-4.pdf>

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- **Strengthening the defence industry** at European level and developing a common European policy in this field. This could be the precursor to the formation of a **genuine** common defence policy, with obvious positive impacts for Greece in terms both of defence expenditure and guarantees for the security of its national borders.
- **Additional investments of €800 billion** per year, which could cover Greece's investment deficit, which is estimated at €20 billion per year.
- **New joint borrowing**, which could help maintain the level of European funding to Greece and avoid the falling growth rates that could stem from a possible reduction.
- **Decarbonisation** and the replacing of coal with "green" and cheaper energy sources, which, in combination with other measures, could reduce energy costs for Greek consumers, who are currently suffering from high energy prices.

The other fields (technology/industrial recovery, climate change, etc.) are very important but, as Tasos Giannitsis⁶ believes, they are only of marginal significance for the national choices Greece makes. He argues that "The [Draghi] report should be studied carefully; taking a close and dispassionate look 'behind the mirror' will reveal what it entails for Greece, in the form, too, of reactions to its proposals. Reading the various issues the report draws attention to raises questions we can either ignore or address: given our strengths and weaknesses (negative net savings, overconsumption, low levels of investment, poor international ranking in terms of education / the Pisa report, the functioning of the Rule of Law, corruption, our technological infrastructure and state efficiency), do we feel we can rest easy, or should we be concerned?"

The Objections Raised to the two Reports

The most negative response to the Draghi report came from Christian Lindner, the now sacked German Finance Minister, who was quick to condemn the proposal for new joint borrowing. Lindner's criticism was supported by representatives of other "frugal" Member States.

The Letta and Draghi reports have been welcomed almost universally and with enthusiasm in many quarters, in terms both of their findings and conclusions and of the proposals they make. This positive reception culminated with the adoption of almost all their proposed actions by the informal European Council in Budapest on 8 November 2024, and the incorporation of their formulations into the "Budapest Declaration on the New European Competitiveness Deal"⁷.

Objections of varying seriousness were, of course, made. These generally related to the Draghi report, both because of its outspoken proposal for new joint borrowing, and because of the greater visibility it received as a result of its publication being delayed by the European elections, but also because of Mario Draghi's personality and his (well-earned) reputation as the saviour of the eurozone.

The most negative response to the Draghi report, which was made almost immediately after its publication, came from Christian Lindner, the now sacked German Finance Minister, who was quick to condemn the proposal for new joint borrowing. Lindner's criticism was supported by representatives of other "frugal" Member States (Austria, the Netherlands, Denmark and Sweden).

⁶ <https://www.tanea.gr/print/2024/09/14/opinions/i-ekthesi-ntragki-kai-ta-minymata/>

⁷ <https://www.consilium.europa.eu/el/press/press-releases/2024/11/08/the-budapest-declaration/>

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...the most serious dissenting opinion came from the former Prime Minister of Italy, Mario Monti, who, along with the considerable praise he lavished on the Draghi report, also expressed a reservation in relation to its proposed revision of EU competition policy, and its approach to mergers, in particular, which he felt would be detrimental to the great majority of European businesses.

Apart from this reaction, which surprised no one, the most serious dissenting opinion came from the former Prime Minister of Italy, Mario Monti⁸, who, along with the considerable praise he lavished on the Draghi report, also expressed a reservation in relation to its proposed revision of EU competition policy, and its approach to mergers, in particular, which he felt would be detrimental to the great majority of European businesses. "Size matters", Mario Monti notes, "but it is not the only factor (in determining competitiveness), and it would be a shame to weaken one of the very few tools the EU has the authority to wield at a European level, at a time when it is perhaps more important than ever to use it".

In addition, analysts at Bruegel⁹ have opined that, while the Draghi report's analysis of the EU's digital weaknesses raises the right issues, it fails to address them adequately with its proposals. They also found the report to contain good ideas for reducing the overall cost of the energy system, but questioned its proposals for reducing the cost of energy-intensive industry on grounds of fairness and of efficiency. They point out that disregarding either budgetary constraints or World Trade Organization rules could easily backfire, making the EU's frugal Member States even less willing to agree to increasing the EU's budgetary resources, and thus undermining the Union's efforts to accelerate decarbonisation around the world and not just in Europe.

Furthermore, analysts from the same think tank¹⁰ have expressed the view that Letta's proposals for public sector investment in Research and Innovation ignore the fact that the level of private sector investment in this area now far exceeds what the public sector could fund, while failing to take it into account that the main driver of R&D funding is the income generated by the commercial exploitation of its findings.

"New wine in an old bottle"¹¹ is how the Draghi report is described by those who argue that the EU's lack of investment and capital is due to the bloc's long-standing insistence on stability and fiscal discipline, and that decarbonisation will not be possible without critical raw materials and green technologies from China (which is also the most important market for many EU products). They note that "military Keynesianism" (meaning the common defence industrial policy) cannot be implemented in any form, given that the report does not recognise that NATO's defence shield in Europe implies the purchase in return of armaments from the US. Finally, they also point out that, while the report proposes the largest investment programme in the history of the EU, the social conditions required to ensure that the benefits are shared fairly are absent.

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There are also some who, without rejecting the content of the Draghi report, describe it as utopian and unworkable, especially with regard to its proposals for funding and joint borrowing. This group includes leading players from Greek industry (one of whom also represents an important branch of European industry), who agree that both the Letta and Draghi reports capture the magnitude and urgency of the stakes for the European Union¹², but consider Draghi's proposals to be unrealistic. Paradoxically, just a month ago, one of these players was highlighting the positive proposals contained in the report for industrial competitiveness and predicting that many would be well-received by

⁸ <https://www.kathimerini.gr/world/563302615/mario-monti-poios-tha-xypnisei-ti-synestalmeni-eyropi/>

⁹ <https://www.bruegel.org/newsletter/mario-draghis-eu-competitiveness-report-landmark-plan-was-promised>

¹⁰ <https://www.bruegel.org/analysis/eu-savers-need-single-market-place-invest>

¹¹ <https://www.in.gr/2024/09/28/world/emmoni-tou-ntragki-tin-antagonistikotita-den-tha-vgei-se-kalo-ton-eyropaion-ti-lenei-eidiko/>

¹² https://www.sev.org.gr/deltia_typou/spyros-theodoropoulos-aparaititi-i-synergasia-politeias-epicheiriseon-kai-ergazomenon-gia-na-epitefchthei-to-ependytiko-alma-pou-echei-anagki-i-chora/

There are also some who, without rejecting the content of the Draghi report, describe it as utopian and unworkable, especially with regard to its proposals for funding and joint borrowing.

The two reports provide a solid foundation on which we will ambitiously advance our work. We seize their wake-up call. It is imperative that we urgently close the innovation and productivity gap, both with our global competitors and within the EU. We will work in unity and solidarity for the benefit of all EU citizens, businesses and Member States.

Europe's struggling industrial sector, primarily because they touch upon the issue of costs¹³.

However, as Tasos Giannitsis notes¹⁴: "Draghi's proposals were criticised as utopian when they were first made public, especially in so far as they advocate an increase in EU debt and the issuance of European bonds. These objections are familiar and understandable. But whether the Report is utopian or not depends on how one evaluates both the current threats in the three areas it addresses, and the will on the part of European societies to confront them. It also depends on how one views the changes over the last decade in how much weight the EU carries on the international stage."

The 'New European Competitiveness Deal' Adopts the Letta and Draghi Reports

The "New European Agreement on Competitiveness"¹⁵ adopted by the informal European Council in Budapest (8 November 2024) is a very important development, as it adopts most of the key approaches contained in the Letta and Draghi reports, setting specific milestones for some, too. As the European Council stresses emphatically in its Declaration: "We welcome [these reports]. They provide a solid foundation on which we will ambitiously advance our work. We seize their wake-up call. It is imperative that we urgently close the innovation and productivity gap, both with our global competitors and within the EU. We will work in unity and solidarity for the benefit of all EU citizens, businesses and Member States."

Of course, the Deal studiously avoids even mentioning the possibility of joint borrowing. In relation to new sources of funding, it limits itself to "exploring the development of new [financial] instruments", etc. Of course, with Germany currently in the throes of a major political crisis—not to forget France, with its huge budget deficit—how much further could the Deal have gone at this juncture? Probably for the same reasons, the Deal does not even touch on the proposals the two reports make for radical changes to the bloc's competition policy, and everything that would entail for the state aid the German government currently lavishes on German businesses.

The Budapest Declaration concludes with "The need for a unified response has never been more compelling", its dramatic tone probably dictated by Trump's election in the US, before calling on "all EU institutions, Member States and stakeholders to urgently implement and deliver this New European Competitiveness Deal." Finally, the European Council pledges to continue to provide further strategic guidance and to review progress regularly over the coming year.

The almost jubilant adoption of the two reports by the 27 leaders, albeit incomplete with its proposals vis-a-vis competition policy and financing left out, is extremely encouraging for the EU's short- and medium-term prospects. It remains to be seen whether, and how quickly, the two major issues which the New European Deal on Competitiveness fails to address will be added, and whether the agreement will be turned into legally binding and enforceable texts.

¹³<https://www.capital.gr/oikonomia/3864923/e-mutilinaios-olokliromeni-kai-emperistatomeni-i-ekthesi-ntragki-thetikes-protaseis-gia-ti-biomixania/>

¹⁴<https://www.tanea.gr/print/2024/09/14/opinions/i-ekthesi-ntragki-kai-ta-minymata/>

¹⁵<https://www.consilium.europa.eu/el/press/press-releases/2024/11/08/the-budapest-declaration/>

Conclusions

The European Council accepting the bulk of the proposals made in the Letta and Draghi reports, and doing so in short order (by EU standards), indicates how important they are for the future of Europe. This assessment is further reinforced by the inclusion of many of their proposals in the action guides which Ursula von der Leyen has handed out to the members of the new European Commission.

It is not only Draghi and Letta who are raising the alarm. In a recent report, the International Monetary Fund itself predicts a further widening of the gap between Europe and the US by the end of the decade. According to the IMF, this is mainly due to low productivity and an ageing population in Europe, coupled with the bloc's failure to keep up in the spheres of innovation and technology. Indeed, Europe can only muster a growth rate of 1.45% per annum, compared with 2.29% in the US. The report also points out that European productivity in general, and in tech in particular, has stagnated over the last 20 years, while it has increased by 40% in the US (!). The IMF has called on the EU to take action to further integrate the economies of Europe¹⁶.

The two reports show the "weapons" with which the EU can confront, and perhaps reverse, the above trends, defending itself but also launching a counter-attack in the ongoing undeclared tariff and subsidy war between the US and China in which the bloc will inevitably be embroiled, willingly or otherwise.

However, the difficult context in which the EU finds itself having to wage its own 'war' must also be taken into account. In Europe today, the advocates of "illiberal democracy" and ethnocentric approaches to critical issues such as immigration, have become dangerously emboldened as they grow in strength. This political landscape, combined with the **'leadership deficit'** that has emerged due to Germany and France's current inability to pull the European train behind them, is not conducive to the realisation of Draghi's proposals, and by extension to the taking of initiatives that will help the EU to survive in the new geopolitical and economic environment.

The difficulties are exacerbated by the recent rift between the European People's Party (EPP) and the European Socialists, the two pillars on which the EU's institutional balance and stability rests. A Europe that is divided rather than united is not the best response to the existential dangers it faces.

However, the political crisis and the early elections in Germany also have their positive side. Before the crisis broke out, the start of negotiations for the EU's multiannual budget for 2028-2034 was expected to be delayed until elections were held in Germany in autumn 2025. Barring any dramatic surprises, the early elections in Germany will allow the Commission to present its proposal faster, and discussions on the Multiannual Financial Framework 2028-2034, to which the financing of the additional investment proposed by the two reports is linked, to start earlier than expected.

To these adverse circumstances, we must add Trump's election to as Presidency of the United States and the uncertainties, if not threats, this entails for the EU's prospects. On the one hand, this development may strengthen and accelerate the bloc's awakening, confirming Jean Monet's prophetic comments yet again on the contribution crises have

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¹⁶ *Oikonomiki Kathimerini*, 27 October 2024

The Letta and Draghi Reports: The Only Way to Go, Despite the Hurdles

Still, it is encouraging that—as all the indications show—change is now afoot in Europe.

made to European integration. On the other hand, there is always the risk that the losses incurred in the meantime (from the imposition of draconian tariffs on European products, other protectionist measures, the withdrawal of the US defence umbrella, etc.) may precede the "awakening", and not only halt any recovery efforts underway, but also cause Europe to regress, possibly irreversibly. Which is why **how** Europe reacts is important, but so is **when** it reacts.

Still, it is encouraging that—as all the indications show—change is now afoot in Europe. And while the Budapest decision may not have gone as far as the situation demands, it still makes it crystal clear that the European Union has taken the need to regain the initiative fully on board. It remains to be seen whether this momentum can be maintained. Which is certain is that the problems cannot wait a moment longer.