Draghi report reveals deep crisis of European capitalism

Nick Beams
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A report on European Union (EU) competitiveness released last week highlights the existential crisis of the organisation and the impossibility of overcoming it within the framework of the capitalist nation-state system. The report was prepared for the European Commission (EC) by the former head of the European Central Bank and previous Italian Prime Minister Mario Draghi.

These conclusions were not drawn by Draghi—he advanced proposals aimed at trying to overcome the crisis of the EU—but they emerge clearly from the report.

And Draghi himself is more than aware of what is at stake. In comments introducing the report, he said of his recommendations: "Do this, or it's slow agony." And to underscore the point he continued: "This is an existential challenge."

The report, which was commissioned last autumn by EC president Ursula von der Leyen, arose out of the recognition that as a result of slowing growth, extending back decades and virtual stagnation in recent years, the EU is falling ever further behind the US and China in its economic development.

It is not possible to detail here all the areas where Europe is falling behind; they extend across the economy. Draghi began with the claim that Europe, with a single market of 440 million consumers, 23 million companies and 17 percent of global GDP, has the foundations in place to be a highly competitive economy. But the report shows this is not taking place.

He noted that growth in the EU has been slowing because of weakening productivity growth, "calling into question Europe's ability to meet its ambitions."

EU economic growth "has been persistently slower than in the US over the past two decades, while China has been rapidly catching up" with the gap between the level of GDP at 2015 prices widening from slightly more than 15 percent in 2002 to 30 percent in 2023.

Other figures cited recently by the London-based *Telegraph* economics correspondent Ambrose Evans-Pritchard showed that in 1990 the EU, then comprising 12 states, accounted for 26.5 percent of global GDP. Today the EU of 27 states accounts for just 16.1 percent.

In a comment piece in the *Economist* magazine, Draghi argued that in the past, slowing growth "could be seen as an inconvenience but not a calamity. No more. Europe's population is set to decline, and it will have to lead more on productivity to grow. If the EU were to maintain its average productivity growth since 2015, it would only be enough to keep GDP constant until around 2050."

The key problem is that the conditions which led to EU growth, even at a slowing rate, are disappearing.

The report stated that the post-Cold War situation, involving an expansion of world trade supporting EU growth, is now "fading." And the "multilateral trading order is in deep crisis and the era of rapid world trade growth looks to have passed."

With the "normalisation" of relations with Russia after the liquidation of the USSR in 1991, Europe was able to meet its demands for energy. "But this source of relatively cheap energy has now disappeared at huge cost to Europe."

The result is that while energy prices have fallen somewhat from their peak in 2022, following the start of the Ukraine war—provoked by the US and the other NATO powers—EU companies still face electricity prices that are 2-3 times higher than in the US and natural gas prices 4-5 times higher.

The first requirement for a transformation in the EU is the "need to accelerate innovation and find new growth engines." Here Draghi points to the development of advanced technologies, in particular the use of artificial intelligence, to drive future growth. But in this critical area the position of Europe is declining.

Only four of the world's top 50 tech companies are European and from 2013 to 2023, the EU's share of global tech revenues fell from 22 percent to 18 percent while that of the US rose from 30 percent to 38 percent.

The report noted that one of the key reasons for the rising productivity gap between the US and the EU from the mid 1990 was "Europe's failure to capitalise on the first digital revolution led by the internet." And with a new digital revolution underway, Europe "currently looks to set to fall further behind."

"The largest European cloud operator accounts for just 2 percent of the EU market. Quantum computing is poised to be the next major innovation, but five of the top ten tech companies in terms of quantum investment are based in the US and four in China. None are based in the EU."

While certain innovations have been developed in autonomous robotics and AI services "innovative digital companies are generally failing to scale up in Europe and attract finance, reflected in a huge gap in later stage financing between the EU and the US. In fact, there is no EU company with a market capitalisation of over €100 billion that has been set up from scratch in the last fifty years, while in the US all six companies with a valuation above €1 trillion have been created over this period."

The development of the EU and the establishment of a common currency, the euro, in 1999, was an attempt by the European ruling classes to create a more viable framework for economic development and try to overcome the problems arising from the outmoded division of the continent into rival nation-states.

But the unification of Europe on a capitalist basis was always a utopia, because each of the European ruling classes remains grounded in the nation-state system under conditions where the conflicts between them have been intensifying, not lessening.

This has meant that attempts to develop a cohesive industrial policy have been hindered. The Single Market has been adversely impacted by the ability of countries "with the most fiscal space [the reference here is to Germany] and a lack of coordination among financing instruments."

"While the EU collectively spends a large amount on financing its industrial goals, financing instruments are split along national lines and between members states and the EU. This fragmentation hampers scale, preventing the creation of large capital pools in particular for investments in breakthrough innovations."

The report laid emphasis on Europe becoming a leader in decarbonisation and green technology. But earlier advantages it may have enjoyed are now being eroded. It noted that since 2020, patent innovation has slowed. From 2015 to 2019, the EU represented 65 percent of venture capital development from hydrogen and fuel cells, but this declined to just 10 percent from 2020 to 2022.

In his foreword to the report, Draghi wrote that the global decarbonisation drive is a "growth opportunity" for European industry but it is not guaranteed.

"Chinese competition is becoming acute in industries like green tech and electric vehicles, driven by a powerful combination of massive industrial policy and subsidies, control of raw materials and the ability to produce at a continent-wide scale."

The EU is facing a dilemma. On the one hand China may offer the cheapest route to achieving decarbonisation targets, while on the other "China's state-sponsored competition represents a threat to our productive clean tech and automotive industries."

As the global struggle to acquire access to critical minerals needed to develop green technology intensifies, decarbonisation is directly linked to military spending and capacity, along with access to the most advanced computer chips.

Europe needs a "foreign economic policy" under conditions where "physical security threats are rising and we must prepare. The EU is collectively the world's second largest military spender, but this is not reflected in the strength of our defence industry capacity."

It is "too fragmented, hindering its ability to produce at scale, and it suffers from a lack of standardisation and interoperability of equipment, weakening Europe's ability to act as a cohesive power."

In the body of the report, Draghi wrote that dependencies on others for crucial raw materials are becoming increasingly vulnerable, threatening supply chains. At the same time, aggregate defence spending is one third of that of the US and the European defence industry is suffering from decades of underinvestment and depleted stocks.

"To achieve genuine strategic independence and increase its global geopolitical influence, Europe needs a plan to manage these dependencies and strengthen defence investment."

In order to meet its objectives in technology, decarbonisation and military capacity, Draghi calculated that the EU will need to lift investment by €800 billion, that is, to almost 5 percent of GDP per year. By comparison, the boost provided by the Marshall Plan in the period 1948-51 was between 1 and 2 percent of GDP for recipient countries.

This would require a massive restructuring of the financial system including all EU debt. Acknowledging that joint borrowing was a "very sensitive" issue, Draghi said it would be "instrumental to reach the EU's objectives."

Those sensitivities were immediately revealed. The Europe director of the Eurasia Group consultancy firm, Mujtaba Rahman, told the *Financial Times* that the "political realities in Paris and Berlin mean his recommendations have zero chance of being implemented."

The reaction from Berlin confirmed that assessment. German Finance Minister Christian Lindner wrote on X/Twitter that joint EU borrowing would not solve structural problems. Companies did not lack subsidies but were "tied down by bureaucracy and a planned economy."

His Dutch counterpart Eelco Heinen said he totally agreed that Europe had to grow but that required reform and "more money is not always the solution."

As she received the report von der Leyen avoided endorsing the issue of more debt.

But Draghi has insisted the EU faces an existential crisis if this kind of back and forth continues. "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."

Draghi did not spell out in detail the consequences of a continuation of the present path. But be provided some indications, alluding to the dangers to "welfare" and Europe's supposed "social model." That is, further, deeper attacks on the social position of the European working class.

But his plan does not provide a way forward. Rather, it is an expression of the deep crisis of European capitalism in a situation where the conditions which made possible some limited advancement for the working class have been shattered by vast changes in the very foundations of the global capitalist economy.

The report's recommendations do not represent a plan for future harmonious economic development but underline the fact that this is impossible under capitalism. The report is thus a vindication, in its own way, of the perspective fought for by the Marxist movement for more than a century, that such a future can only be assured through the political struggle by the working class to put an end to capitalism and establish the United Socialist States of Europe.