



Draghi report on the future of European competitiveness

Executive Summary

Brief overview

- BAK welcomes a common EU industrial strategy, which should result in improved European coordination and greater innovation. However, there is no clear picture of what role employees could play within that strategy. In BAK's opinion, the jobs that could be maintained or created in an economy characterised by automation, AI and decarbonisation still need to be described in more detail.
- BAK calls for a substantial EU investment drive. In his report, Draghi regards an investment volume of EUR 750-800 billion per year until 2030 as necessary in order to close the investment gap estimated at this level. Public financing will have to play a relevant role in that and must not be restricted or made impossible by the current fiscal rules in particular.
- The strengthening of research, development and innovation, particularly in selected key sectors, is welcomed, but in BAK's opinion, the report barely addresses the goal of a clean circular economy.
- It is welcome that Draghi emphasises social inclusion and the skills and abilities of employees as positive competitive factors. However, the report devotes too little space to employment and social issues. Insufficient mention is made of social investments despite their high priority. The same applies to the aspect of fair distribution.
- BAK is critical of the fact that cross-border wage and social dumping is not mentioned, although such practices harm employees and lead to unfair competition between companies in the EU.
- Draghi recommends completion of the Capital Markets Union and advises that provisions be made via private pension funds. However, BAK strictly rejects such an approach and emphasises the cost efficiency and stability of public pension systems compared to private pension funds.
- BAK calls for measures against tax loopholes, tax evasion and avoidance and demands a uniform tax base for corporate tax.
- The high energy prices in the EU are a significant competitive disadvantage compared to other regions of the world. However, the reform of the electricity market design in 2023 does not go far enough to decouple electricity prices from gas prices. Additional reforms are needed, for example through an „Iberian model“ in times of crisis or by splitting the spot market into renewable and fossil electricity production. Energy companies should act more in the public interest and pass on low generation costs to consumers.
- BAK welcomes local-content criteria in public procurement, but also calls for social and environmental criteria to be taken into account. BAK is also in favour of procedural improvements for the energy transition.
- The suggestion of introducing a qualified majority for some policy fields, such as tax policy, is welcome.
- BAK is highly critical of the establishment of a Competitiveness Coordination Framework, as it could lead to a one-sided focus at the expense of the welfare state and climate protection.
- BAK strictly rejects measures that are intended to prevent higher standards compared to EU minimum standards. On democratic grounds, the promotion of regulations at the expense of directives should be rejected. They restrict the participation rights of Member States and jeopardise the level of protection for employees and consumers.

AK Position

Mario Draghi presented his thoughts on [the future of European competitiveness](#) to the public on 9 September 2024.

In his report, the former ECB president shows above all that sustainable competitiveness relates in particular to the skills and knowledge of employees as an important competitive factor. The Austrian Federal Chamber of Labour (BAK) welcomes the fundamental statement that measures to increase competitiveness must also contribute to promoting prosperity and wellbeing for all. The goal is to bring about a just transition that drives decarbonisation and a clean circular economy, leaving no one behind.

Despite many positive approaches, BAK would also like to point out several weaknesses in the report. It is regrettable that Draghi's supply-side perspective largely ignores issues such as demand management or distribution. Moreover, the proposed governance structure in the form of a „Competitiveness Coordination Framework“ threatens to create a bureaucratic monster that could come at the expense of the welfare state, employment and climate protection. BAK also firmly rejects the idea of forcing private pension funds to finance future investments.

In the course of further debates, it will therefore be important to ensure that greater weight is given to the common good and welfare of society than to the wishes of individual companies, as well as to ensure that lessons are learned from the sometimes very bitter experiences of the one-sided liberalisation of (financial) markets.

In BAK's view, the welfare state, including well-developed services of general interest and climate protection, are key pillars of European competitiveness. It is less about achieving the highest per capita economic output and more about keeping a close eye on the sustainable development of prosperity and the wellbeing of the European population. The active involvement and participation of all social partnership organisations in shaping sustainable competitiveness would be a key prerequisite for the success of this important initiative.

BAK's assessment in detail

Like Enrico Letta, Mario Draghi strongly gears his proposals to realpolitik. That is a pragmatic approach that – as he himself puts it – can be implemented „quickly“ and „to make a tangible difference“. The report

contains a number of positive approaches and ideas, but also has many weaknesses. The central demands of the report are discussed below.

Industrial strategy and investments

In principle, **BAK welcomes** the development of a **diversified industrial policy strategy** at EU level. „Future industries“ such as e-mobility, photovoltaics and heating technology in particular have not yet managed to establish themselves sufficiently in Europe and are constantly losing market share to China and the USA. The report sets out interesting elements for a future EU industrial policy. Improved European coordination of innovation and technological progress, as well as the development of new industries, are crucial building blocks. However, in BAK's opinion, **there is no clear vision of what role employees could play in the future EU industrial strategy**. That includes the fact that automation, digitalisation, artificial intelligence and decarbonisation are leading to structural change, which also requires a targeted active labour market policy. Draghi also rightly emphasises that Europe must make fundamental decisions on how it can pursue its decarbonisation path whilst maintaining the competitiveness of its industry.

Mario Draghi calls for **investments of between EUR 750 and 800 billion per year** by 2030. That corresponds to the investment rates of the 1960s and 1970s and, in BAK's opinion, would be a necessary **stimulus for the European economy and for overcoming the enormous challenges of the present**. The aim is to drive forward the environmental transformation (EUR 450 billion), support digitalisation and technology leadership in a number of fields (EUR 150 billion) and increase productivity by promoting innovation (EUR 100-150 billion). In BAK's view, it is certainly necessary to **invest more in services of general interest**, as they are a basic prerequisite for a successful and competitive economy. Draghi also proposes **joint public financing models at EU level** for implementation, as such sums could not nearly be raised by the private sector alone. Notwithstanding the partly negative initial reactions from politicians to this proposal, BAK is not alone in finding it difficult to imagine how the necessary investments could be financed in any other way. Finally, it should also be noted that extensive national financing would come into conflict with the fiscal rules, which is an issue that Draghi regrettably did not address in detail in his 400-page report.

The report also advocates **research and development** aimed at **promoting innovation** and increasing productivity. In addition to the usual **horizontal** industrial policy, the report also delves deeper into key selected sectors and also makes **vertical industrial policy proposals** aimed at establishing and strengthening **strategic value chains in Europe**. In BAK's view, the move towards a clean circular economy is only formulated very vaguely, although it could go hand in hand with a strengthening of European demand.

Social and educational policy aspects in a competitive environment

BAK generally welcomes the fact that the report, with its primary focus on competitiveness and with an eye on the USA and China, emphasises that **social inclusion and thus the European welfare state, as well as the skills and abilities of employees, are fundamental factors for Europe**. Whilst too little space is devoted to those aspects of a "high road strategy" focusing on employment and social issues (ultimately, there are also no specific proposals on how a just transition can succeed), that view is a major step forward compared to all approaches that are primarily committed to price competitiveness (the implementation of which would also hardly be supported by the population).

It is obvious that an increase in GDP does not automatically lead to greater **prosperity and an improved quality of life for all and fairer distribution**. Nevertheless, that is largely ignored in the Draghi report. This is surprising given that EU initiatives in recent years have placed greater emphasis on fair distribution, well-being and social progress, including the European Pillar of Social Rights and the Council conclusions on the „Economy of Wellbeing“.

The Draghi report addresses the need for a significant increase in investment, particularly in decarbonisation of the economy. What is neglected here is that effective **social investments** (for example in childcare, education, health and care) must be accorded particularly high priority among future investments in order to increase the prosperity and wellbeing of society similarly. The Draghi report ignores the issue of **cross-border wage and social dumping** in the EU, for example with regards to the posting of workers under the freedom to provide services. That ignores the fact that underpayment practices harm employees and undermine the competitiveness of companies that comply with the rules. BAK calls here for the cross-border enforcement of administrative penalties to be facilitated and subcontracting to be restricted.

With regards to the debate on subsidies in connection with the necessary transformation of the economy, it

is essential that subsidies for companies are linked to appropriate and effective social and environmental conditions in order to ensure that the interests of employees and society as a whole are taken into account.

BAK welcomes the approach of focusing on the training/qualifications and expertise of employees. However, that must also be understood as an umbrella term for all those who are not currently employed and are jobseekers, as the **entire labour force potential** must be addressed. In terms of labour market policy, it is essential to promote the acquisition of broad skills and strengthen training measures in order to meet the demand for labour, avoid unemployment and maintain employability. However, the role of **active labour market policy** must be explicitly mentioned and linked to a strategy for skilled labour.

A central point here is the **right to training for jobseekers and employees**. That is the only way to guarantee European competitiveness in the long term. That means gearing public labour market services (AMS in Austria) not only towards placement of jobseekers, but also towards training/acquiring qualifications and a legal entitlement to specific further training or retraining within the framework of labour market policy budgets, as well as a right to training independently of direct labour market policy. In Austria, BAK calls for the implementation of a training allowance that would secure the livelihood of employees and jobseekers for up to three years. Such efforts must also be supported and jointly promoted at European level.

Whilst **BAK regards** the report's **focus on investments to increase competitiveness as positive**, detailed measures to protect and create **quality jobs** in all sectors and regions are lacking. The **involvement of trade unions and social dialogue should be at the heart of this strategy**. Furthermore, insufficient attention is given to decentralised institutional structures, Industry 5.0 and the role of small communities in fostering people-centric innovation.

Financing of the new initiatives

Financing of the massive investments is based on a number of stakeholders. In addition to public investment, private investment should also play a major role. To that end, Mario Draghi wants to **complete the Capital Markets Union** and make use of the large volume of savings in European households.

With regard to the pension systems mentioned in the report, it is the task of public pension insurance to provide the population with security in old age. **The public pension systems** are cost-efficient mechanisms for achieving that goal. However, the approach taken in the

Draghi report implicitly amounts to promoting pension provision via **private pension funds at the expense of public pension schemes. BAK firmly rejects** that approach, as it would make old-age provision more dependent on the risks and fluctuations of the financial markets. It should also be borne in mind that the return promises made by pension funds are often not fulfilled in reality.

BAK **warns against** Draghi's intention to reintroduce **securitisations**, i.e. bundled receivables, on a large scale. It should be noted here that the lessons of the global financial crisis from 2008 onwards must not be ignored. Those lessons include, for example, recognition that the mistaken belief in the supposed allocative efficiency of the financial markets led to devastating consequences with considerable social and budgetary costs.

We cannot agree here with Draghi's finding that important investments are due to the lack of a capital markets union and other supply-side circumstances. Investments primarily depend on companies' sales expectations and therefore on the **demand situation on the EU single market**.

Need for action to establish fair taxation

Although Draghi calls for more power to act with respect to the tax system by introducing qualified majority voting, he fails to elaborate on the role and potential of a common tax policy to secure important revenues and to create EU-wide tax justice. In view of the increasing income inequality in many EU countries (which is also an important cause of the growing dissatisfaction among the population), Draghi's entirely uncritical comments with reference to the relatively lower inequalities in Europe compared to other continents are also surprising.

BAK believes that revenue deficits, which have been known for a long time, must now be swiftly remedied. That includes by means of a uniform tax base for corporate tax, as well as by closing tax loopholes and, in particular, preventing tax evasion and avoidance, which are estimated to have a volume of up to EUR 1 trillion.

Energy policy

We agree in many respects with the outline of the **problem set out** in the Draghi report. The fact that the European wholesale electricity markets are heavily dependent on the price of gas despite the increasing expansion of renewable energy sources is critical. By designing the European electricity market, Europe has itself created a high electricity price differential to the

USA in recent years. According to the Draghi report, gasfired power plants were price-setting with respect to 63% of hours in 2022, although they only account for around 20% of electricity generation across the EU. That imbalance will continue until 2030. The slow approval process is also a recognised problem when it comes to the expansion of renewable electricity production and grids.

In view of that analysis, however, it is surprising that the **recommendations only partially address the diagnosed issues**. The report rightly emphasises, for example, the need for accelerated grid expansion and renewable energy sources through faster and simplified approval procedures. He sees potential for that above all in the digitalisation of processes and more staff resources. It is also positive that the general need to decouple electricity prices from gas prices (at least partially) is mentioned, that large consumers are to be encouraged to produce their own electricity and that gas diversification is to take place. Taxation of excess profits – as has already taken place during the current crisis – is also proposed. However, the proposals do not go far enough. For example, the actual **decoupling of electricity prices from gas prices** – including on the spot market – (e.g. through the Europe-wide implementation of the „Iberian model“ in times of crisis or a division of the spot market into renewable and fossil electricity production) is **not addressed**.

The report also places **strong emphasis on the mobilisation of private capital for the expansion** of grids and renewable electricity production. However, it is **unclear to what extent that would actually lead to a price reduction**. After all, a certain level of return is necessary to attract private capital. However, that leads to **higher capital costs than** would be the **case with public financing instruments, for example**. Conversely, a stronger **focus on the common good in the energy sector as part of services of general interest** – especially by energy companies in (partly) public ownership – could actually ensure that low generation costs are also passed on to consumers. It is also unclear how directly the required longterm contract models (Power Purchase Agreements (PPAs) or Contracts for Difference (CfDs)) would affect consumer prices (including for large consumers). Firstly, the spot market will shrink, which could lead to a higher price level. Secondly, according to the current electricity market reform, CfDs are largely only intended for new power plants. Particularly in countries like Austria, which already have a high proportion of renewable energy, the use of CfDs would therefore only be possible to a very limited extent. Moreover, strengthening longterm wholesale markets is of little use if any price advantages are not passed on to end customers (e.g. because end customer prices are tied to spot market

prices). The emphasis on a stronger **focus on nuclear energy must also be viewed critically**. Aside from rejection of that form of energy, **wind and photovoltaic systems are cost-effective, well-researched alternatives that can be installed much more quickly**.

Joint procurement, approval procedures and increased coordination

The report identifies the fragmentation of the many (mostly) national initiatives („Europe does not coordinate where it matters“, Part A, p.4) and emphasises the need for **greater coordination between the Member States**. It calls for a joint approach in many fields. That ranges from the **joint procurement** of liquid gas through to defence spending. „Local content criteria“ are intended to further strengthen internal market demand. BAK welcomes **local content criteria in public procurement**, but also **calls for social and environmental criteria to be taken into account**.

Joint coordination also results in the formulation of a large number of plans and strategies. In line with the focus of [Mariana Mazzucato's mission](#), the report calls for clear goals and milestones, implementation plans and funding options. That also includes **speeding up approvals and procedures**, which must be accompanied by **greater resources in public administration**. At the same time, it must be emphasised that the European Union is highly heterogeneous and **smaller Member States sometimes face different challenges** from large economies. That complexity is **not sufficiently** reflected in the **Draghi report**.

BAK is critical of the fact that the acceleration of procedures for the energy transition is to be accompanied by a **relaxation of EU environmental legislation** (e.g. Habitats Directive, Birds Directive, Water Framework Directive) until climate neutrality is achieved by 2050. The biodiversity and climate crises are interdependent, which is why both can only be solved together. Intact ecosystems are essential to mitigate the consequences of the climate crisis. [According to the European Environment Agency](#), 80 percent of species are in a poor or inadequate state. **BAK is therefore in favour of procedural improvements** for the energy transition, but **not at the expense of nature and people**.

The recommended measures to improve the procedures, such as **adequate staffing of the authorities** and the strengthening of the Strategic Environmental Assessment (SEA), are expressly welcome. After all, good planning can significantly reduce the workload at project level. However, the SEA must not replace the Environmental Impact Assessment (EIA), as proposed in the Draghi report, as the two

instruments operate at different levels. Whilst the SEA provides an overarching framework for clarification of fundamental issues, the EIA focuses on the specific assessment of projects.

BAK also points out that measures such as the **Emergency Measures Regulation to accelerate the deployment of renewable energy** can only serve as **short-term solutions** in exceptional situations. Furthermore, the Emergency Measures Regulation to accelerate the deployment of renewable energy is currently being [reviewed by the European Court of Justice](#) as there are doubts about its compatibility with European and international law.

Strengthening governance

BAK takes a positive view of the idea of introducing the **qualified majority voting procedure** in the Council for various policy fields. **In the field of tax policy, it is to be welcomed** because it could reduce tax privileges for mostly large companies and the EU would finally be able to act when it comes to important projects such as the introduction of a financial transaction tax. However, such a shift is also conceivable in other remaining fields of law (including employment law).

In BAK's opinion, the establishment of a **„Competitiveness Coordination Framework“**, to which other, previously established processes (e.g. for the European Semester) would ultimately be subordinated, must be viewed very critically. It would institutionally reinforce a one-sided focus that comes at the expense of the welfare state and climate protection and that would hardly be less bureaucratic than the processes under the European Semester or the National Energy and Climate Plans, which Draghi – wrongly – criticises as inefficient.

It is also striking that the report does not address a key factor that **impairs the expansion of public investment, namely the restrictive EU fiscal rules** of the reformed economic governance framework. It is important to warn that the EU's fiscal rules are currently ushering in a new wave of austerity policies in Europe, including cuts to welfare state benefits.

With regards to the goal of **reducing bureaucracy and administrative burdens**, BAK refers to its [statement on the Letta report](#) and to a [study by the Vienna Chamber of Labour \(AK Wien\) on the Better Regulation Agenda at EU level](#). Under no circumstances should such measures be taken at the expense of employees, sections of the population or the environment. The unnuanced discourse associated with the term **„gold plating“**, according to which exceeding

minimum standards in EU directives should be avoided as a matter of principle, is **objectively absurd** and must be decisively rejected. The subliminal narrative that employee rights are excessive bureaucratic obstacles comes across here time and again. Inadequate labour law regulations are often the cause of missed value creation opportunities in a given industry. And precarious working conditions ultimately lead to an exodus of workers from an industry. Deregulation is therefore not a silver bullet. The fact is disregarded that it is in the nature of minimum standards in directives that they only specify the lowest level of regulation and that Member States can also decide to set higher levels of protection. Calling that into question would mean treating EU directives like EU regulations and **restricting democratic decision-making processes** in Member States. When laws go beyond minimum standards, the aim is often to ensure socially desirable higher levels of protection for employees, consumers and the environment. They are also essential for productive development and the growth of sectors with high-quality jobs. In view of the above, urging Member States to carry out impact assessments when implementing directives should also be rejected. BAK points out that **failure to legislate** can also result in high costs for national economies. The mantralike adherence to quantitative deregulation targets (e.g. a 25% reduction in reporting obligations) also appears to have been exhausted and will not create a single job.

Security policy

Notwithstanding the special tasks in the military field given the current tensions and threats, BAK maintains that it should be pointed out that corresponding investments and priorities should not be made **at the expense of the social and environmental restructuring of the economy as a whole.**

Completion of the EU internal market

With regards to **completion of the EU single market**, BAK also refers to the [BAK opinion on the Letta report](#). In BAK's opinion, it should be emphasised that the objectives for the single market defined in Article 3(3) of the Treaty on European Union, which include a competitive social market economy, full employment and social progress, as well as a high level of environmental protection, and which emphasise the fight against social exclusion and discrimination, must be pursued in a targeted manner. Overall, it is also surprising that Draghi, like many others, discusses the lack of completion of the single market on the basis of the different legal systems (according to that approach, federal states such as Austria would also not be considered a completed single market). In BAK's view, it would make more sense for the internal market to be

realised not through abstract legal categories, but rather through the establishment of **large common infrastructure systems** for the benefit of all (especially energy and rail networks).

Economic sectors addressed in Part B of the Draghi report

The economic sectors outlined by Mario Draghi in Part B of his report are noted by BAK, but will only be analysed in detail once more detailed Commission proposals on the individual sectors are available.

BAK requests that the above assessment be taken into consideration and will be happy to answer any questions.



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About us

The Austrian Federal Chamber of Labour (AK) is by law representing the interests of about 4 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore, the Austrian Federal Chamber of Labour is a part of the Austrian social partnership. The Austrian Federal Chamber of Labour is registered at the EU Transparency Register under the number 23869471911-54.

The main objectives of the 1991 established AK EUROPA Office in Brussels are the representation of AK vis-à-vis the European Institutions and interest groups, the monitoring of EU policies and to transfer relevant Information from Brussels to Austria, as well as to lobby the in Austria developed expertise and positions of the Austrian Federal Chamber of Labour in Brussels.