ROBERT SCHUMAN CENTRE

‘Strengthening Governance’ – *The Future of European Competitiveness*

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This note focuses on the last chapter of *The Future of European Competitiveness*, also known as the ‘Draghi report’. My assessment is mixed. The analysis builds on solid principles. The European Union should act cohesively and decisively; it should focus its attention where it can add the most value to national regulation; it should be subject to continuous European and national scrutiny for its effectiveness; and it should help to coordinate activities across the Member States in ways that promote European competitiveness. These are worthy objectives.

Unfortunately, the chapter conveys an understanding of ‘regulation’ and ‘governance’ that is inconsistent with real-world experience. In doing so, the Draghi report reinforces prejudices about the relationship between European institutions and the Member States and about the relationship between states and markets. This reinforcement of prejudice has the potential to fuel ideologically motivated agendas that are at odds with the overall recommendations of the report itself and threaten to dilute the effectiveness of the strategy for the future of European competitiveness.

Worse, the chapter makes recommendations that go against recent European experience in economic governance and policy coordination. If adopted, these recommendations risk undoing lessons learned over the past decades about how best to use European institutions for policy coordination across the Member States. This raises the question whether it is possible to amend the governance recommendations in the Draghi report to reinforce the overall policy agenda it presents. Such amendment will require a careful recalibration of the procedures for European legislation and economic policy coordination.

Sound principles

The European Union should add and not subtract value to the efforts made by the Member States. The EU exists to address problems that the Member States cannot address on their own. In this sense, the Draghi report is a direct descendant of the reports written by Tommaso Padoa-Schioppa and Paolo Cecchini in the late 1980s, the report written by Jacques Delors on growth, competitiveness, and employment in the early 1990s, and the mid-term report on the Lisbon Strategy written by Wim Kok together in the mid-2000s. The Draghi report has innovative features insofar as it reinterprets the notion of competitiveness to focus on total factor productivity as opposed to market size (Cecchini), efficient labor markets (Delors), or the elimination of unnecessary frictions across member states (Kok). The Draghi report also introduces important nuance in the way we think about market competition and state aids. But the principles of governance it espouses are consistent with these earlier attempts to bolster European competitiveness.

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Real-world Inconsistencies

The problem is that the analytical narrative conveyed in the report rests on inconsistencies. The comparison between regulations passed by the U.S. Congress and regulations passed through the European legislative process ignores the fact that the bulk of U.S. regulatory activity takes place within Executive Agencies. This omission skews the interpretation of count data, frequency of change, and time requirements; it may be true that the U.S. Congress can act more quickly that the time required for European legislation but work within U.S. Executive Agencies is a time-consuming process that involves continuous updating. The EU could do better, but data collected from the United States does not provide a useful benchmark for assessing European regulation. Here it is worth asking, if the EU has no consistent methodology for assessing regulatory burden, how can we be sure EU regulation is excessive?

The count data on its own is misleading. Regulation is necessary to create markets. You cannot trade electricity without a regulatory framework for pricing, etc. The same is true for financial derivatives. That is before we talk about the role of minimum product standards. The absence of 'European' regulation is not the absence of regulation – that is what the British learned after Brexit. The British can decide whether to avoid some regulations or to make changes in others. But that discretion suggests that the absence of European regulation is likely to increase rather than decrease the differences between regulatory regimes from one jurisdiction to the next. Such differences fragment markets in ways that undermine competitiveness, which is why Paolo Cecchini talked about the costs of 'non-Europe'. Getting rid of European regulation because it is European or because it is regulation would be counterproductive.

European regulation is often good for European competitiveness. The Draghi report admits this and calls for greater focus on ensuring that European regulation is effective. That is an important goal. The emphasis on streamlining procedures for demonstration of compliance is particularly important. That is where to find the greatest costs for firms and opportunities for improvement.

Caution and Recalibration

The recommendation to build a new 'competitiveness coordination framework' may not be the best approach. That framework is too reminiscent of the Lisbon strategy and its open method of coordination. The problem – as Kok pointed out – is that such arrangements tend to work against the establishment of clear policy priorities. The Draghi report glosses over that problem by assuming that the priorities it outlines will shape the coordination process (Part B, p. 313). That is a dangerous assumption. The European Union does not lack the instruments to implement priorities that are already established; it lacks the political will and institutional arrangements to set pan-European priorities. Unfortunately, *passerelle* type arrangements are likely to lead to fragmentation that could undermine European competitiveness. The EU needs more effective decision-making arrangements within its legislative processes.

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