Competitiveness in the age of geopolitics: What agenda does the EU really need?

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ABSTRACT

Competitiveness has returned to the forefront of European economic policy-making. This paper scrutinizes the recent debate on European competitiveness, as prominently diagnosed by the Draghi Report. By disaggregating the debate into three conceptual strands – market share-focused, productivity-focused, and beyond-GDP competitiveness – we conduct a descriptive statistical analysis of competitiveness indicators for the EU and the United States. Though our analysis concurs with the Draghi Report in identifying an innovation gap in high-tech services and energy, the state of EU competitiveness does not appear as bleak as suggested by recent public discourse. Based on a highly selective reading of the Draghi Report, the current focus on across-the-board deregulation will contribute little to addressing the identified problem areas and risks becoming self-defeating, as it tends to exacerbate reliance on an increasingly outdated export-oriented growth model, given pervasive protectionist tendencies in the global economy. We conclude that a more targeted approach is needed, based on an expansionary public investment agenda and mission-oriented industrial policies.

KEYWORDS

competitiveness, Draghi Report, innovation, European Union, geopolitics

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1. Introduction: Competitiveness as a contested concept

With the publication of the Draghi Report (Draghi 2024a) and the subsequent programmatic pronouncements by the new European Commission, e.g. the Strategic Guidelines and the Competitiveness Compass (European Commission 2025c; von der Leyen 2024), debates on the notion of competitiveness have again become important for European economic policy. However, as scholars frequently observe, a definitive and widely accepted definition of competitiveness or of a competitive economy remains elusive (Kaczmarczyk 2025). Instead, the term is frequently used by lobbyists, policymakers or academics as a buzzword to promote a self-serving agenda (Barden et al. 2024; Krugman 1994).

Amongst other reasons, this ambivalence has led some scholars to refute the usefulness of the competitiveness debate. As early as the mid-1990s, Krugman (1994) reacted to the concept's rise in popularity by calling it a "dangerous obsession". He argued against the idea that countries compete globally in the same way that companies do. In contrast to private business competition, international trade is not a zero-sum game, and contrary to companies, countries do not become insolvent. To the extent that the competitiveness debate refers to productivity, which Krugman considers the key variable to determine the long-term success of an economy, he emphasizes that the former is mostly related to domestic factors including, for instance, the skills of the workforce or the quality of the domestic innovation system. In sum, for Krugman competitiveness agendas rest on shaky theoretical ground. In his view, the need to raise competitiveness is often invoked as an excuse for the imposition of unpopular policies.

Despite this early and indeed widely discussed critique coming from arguably the leading exponent of modern trade theory, the idea of nations competing with each other never left the minds of policymakers, academics and the media, particularly not in the European Union. With the Lisbon Agenda of 2000, an initiative was launched to increase the EU's external competitiveness. Specifically, the Agenda claimed that the EU should become "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion". Perhaps unsurprisingly, by 2010 the general judgement was that though some progress had been made, the overall objective had not been reached (Collignon 2008; Copeland/Papadimitriou 2012). This ultimately reinforced in the minds of EU policymakers an enduring concern for the need to become more competitive. Although the Europe 2020 strategy as the successor policy framework for the period 2010–2020 was somewhat more comprehensive and broader in approach, economic events during the eurozone crisis de facto shifted the policy approach to one based on fiscal austerity and internal devaluation, particularly on the southern periphery of the EU. The policy prescription imposed upon the "PIGS" countries was intended to restore competitiveness on the

basis of wage and welfare cuts, privatization and liberalization. Even the European Green Deal (EGD) as the flagship project of the first Commission headed by Ursula von der Leyen since 2020, was justified, amongst other things, on the grounds of the programme contributing to the EU's competitiveness by promoting, e.g. green technologies and business models.

Given the EU's self-portrayed image as a staunch supporter of free trade – that is, the notion that as trade benefits all countries involved, it is not a zero-sum game – the pertinent question is why competitiveness has become such an obsession for EU policymakers. Our tentative answer to this question is twofold. The first is economic and applies to the period of roughly 1990 to 2008. In this period, the process of neoliberal globalization was marked by both the liberalization of capital flows and financial markets. With capital as a factor of production having become mobile, countries were incentivized to compete for investment. In the language of trade theory, absolute cost advantages became the guiding norm for resource allocation by transnational corporations. Under these circumstances, competitiveness policies were motivated by the desire to promote economic growth via the creation of attractive business environments stimulating corporate investment.

Given recent geopolitical shifts, in particular the Trump administration's imposition of high tariffs on trading partners, as well as efforts to diversify supply chains and delink from China, the case for promoting globalization and export-led growth has if anything considerably weakened. The current renaissance of competitiveness as a guiding principle for EU economic policy must therefore stem from other motivations. In this respect, our main explanatory hypothesis refers to the process of *securitization* (Buzan et al. 1998). As a combined consequence of security of supply deficits during the Covid-19 pandemic, of the energy crisis due to the war in Ukraine and most recently the Iran war, and the US pressure to decouple/derisk from China, EU policymakers have declared economic security and competitiveness the new top priorities. These events are seen as threats to the prevailing European economic model. The framing of these issues as a threat to national security allows EU policymakers both to rally support for a particularly forceful general interest, and to resort to extraordinary measures commensurate to the scale of the challenge. Under the rubric of competitiveness, all kinds of direct and indirect support measures for EU companies are thus put on the EU economic policy agenda. Given the continued strong political commitment to a restrictive macro-financial regime (i.e. the reformed Stability and Growth Pact), the reorientation of the economic policy regime to security-related objectives requires the successful management of politically delicate trade-offs. Most importantly, mobilizing the necessary funds for increasing defence industry production, expanding military capacities in member states, coping with higher prices for energy imports and investing in domestic capacities and capabilities in high-tech industries is conditional upon a large-scale redistribution of funds hitherto mostly used for social spending. To

facilitate this, competitiveness is explicitly put into the service of promoting objectives such as the EU's strategic autonomy, technological leadership and economic security.

Whatever the political motivations, the economic argument for the new competitiveness agenda is the claimed competitiveness deficit of the EU vis-à-vis the US, which is considered to be particularly pronounced in high-tech industries. Given Draghi's focus on productivity as the core of his conceptualization of competitiveness, dynamizing innovation is seen as the critical factor for promoting high(er) productivity growth and thus economic prosperity in the EU. Against this backdrop, the objective of this paper is to take issue with the recent return of competitiveness. We especially scrutinize whether the Draghi Report's central proposition of a European competitiveness deficit vis-à-vis the US stands on firm empirical ground. We do so by benchmarking the EU's competitiveness against that of the US according to distinct and well-known conceptualizations of competitiveness taken from the literature.

The remainder of this paper is organized as follows: on the basis of a literature review, Section 2 introduces three different conceptualizations of competitiveness and identifies central elements of competitiveness that appear to varying degrees in all conceptualizations. Section 3 provides an empirical benchmarking exercise of the performance of the European and US economies in light of the three identified competitiveness concepts. We show that, depending on the concept applied, the assessment of the competitive state of the respective economies varies substantially. Section 4 takes the discussion to the policy level. We provide a critical assessment of the recent EU competitiveness agenda, arguing that the basic problem with the Draghi Report has less to do with its conceptual flaws, and more to do with the highly selective implementation by EU policymakers who prioritize deregulation and cost-cutting. On the basis of our own empirical assessment, we argue in favour of a targeted set of policies tackling the EU innovation gap and energy crisis. Section 5 concludes.

2. Conceptualizations of competitiveness

2.1 Central recurring elements in debates on competitiveness

When discussing the "many facets of competitiveness", Aiginger et al. (2013) differentiate between price, quality and outcome competitiveness. Price competitiveness takes a supply-side perspective and primarily looks at the cost of the input factors of production. Quality competitiveness is a broad term and encompasses both the structure of an economy and its capabilities. In the past, outcome competitiveness was defined as the ability to deliver high gross domestic product (GDP) per capita,

employment or export quotas. Recently, this has been supplemented by new perspectives that also value beyond-GDP goals like life expectancy, happiness, fairly distributed incomes, work-life balance or environmental quality.

While Aiginger et al.'s (2013) work is a good starting point to categorize the different concepts of competitiveness, some adaptations need to be made. On the one hand, we will from this point on think of these "facets of competitiveness" as central elements of competitiveness concepts. Proponents of different definitions of competitiveness value and interpret these elements differently, but they are always part of the debate. On the other hand, we will use the term "institutional elements" instead of "quality elements". Hence, we distinguish between *price*, *institutional* and *outcome* elements. These are defined as follows:

Price elements: Describe the ability of a country/industry to produce cheaper goods and services than their competitors. They include the costs for labour, capital and resources, but also the tax level and regulatory costs. Labour and capital productivity are also important, as actors that can use these factors more efficiently can also sell goods and services cheaper.

Institutional elements: Describe the structures and institutions that a country/industry operates within and that determine the quality of production. They include governance institutions, laws, norms and regulations. For example, both a lack of necessary regulations and a plethora of ill-targeted regulations can make it harder for industries to compete internationally. Industries also need access to affordable finance, in particular patient capital for longer-term investment. The existence of institutions to govern industrial relations, manage labour market demands and mediate relations between employers and workers are similarly important. The ability of a country/industry to produce goods and services of better quality than their competitors requires, amongst other things, innovation, i.e. sufficient research and development and the translation of research and development spending into improved technology and consequently productivity. The education level of the workforce and the quality of the infrastructure to which firms have access also depend on institutional elements.

Outcome elements: Describe the ability of a country/industry to deliver the outcomes demanded by society. These are wide-ranging. From a mainstream perspective, they include GDP per capita, profits and capital accumulation of firms and shareholders, trade balances and financial stability. From a progressive perspective, this list has to be extended to include full employment, high and fairly distributed incomes, decent living conditions, health, happiness, a good work-life balance and a healthy natural environment.

2.2 Conceptualizations of competitiveness

Over time, scholars and policymakers not only included different elements within their definitions of competitiveness, but also interpreted these elements and their importance differently. Revisiting this debate, we categorized different concepts since the 1980s. Our tracking of the changes in the debate resulted in a classification that distinguishes three concepts of competitiveness: *Market share-focused competitiveness, productivity-focused competitiveness and beyond-GDP competitiveness*. This classification is not intended to be a complete mapping of all views expressed within the competitiveness debate. Instead, its purpose is to give a representative overview of how competitiveness was defined by influential authors both from academia and the policymaking community at different times.

2.2.1 Market share-focused competitiveness

Delgado et al. (2012) argue that in the case of the United States the term competitiveness first became prominent in the context of globalization and fears about the rise of the Japanese economy in the 1980s. Competitiveness was therefore defined as the ability of a country and its firms to be successful on global markets. We call this definition *market share-focused competitiveness*. As authors like Camagni (2002) put it, globalization led to a situation where not just companies but also nations compete with each other on the basis of absolute advantage, thus contrasting Krugman's view on competitiveness. Competition is seen less as a dynamic process generating benefits for all but as one that creates winners and losers. This view was shared by the OECD (1992), which defined the competitiveness of a nation as "the degree to which it can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the longer term". Moving another step further, the IMD (International Institute for Management Development), which started releasing its *World Competitiveness Yearbook* in 1989, defined "world competitiveness" as "the ability of a country or a company to, proportionally, generate more wealth than its competitors in the global markets" (IMD 1994). Competitiveness is thus interpreted as a relative concept, as not all countries together can gain from increasing competitiveness. There must be both winners and losers.

This also necessitates a specific view on the enablers of competitiveness. Quality-related elements of competitiveness are seen as important, and policies boosting R&D investment are advocated (de Buck/Strube 2004). However, stronger demands are placed on price and institutional competitiveness. Some scholars emphasize the importance of low labour unit costs for the competitiveness of a nation and its companies (Beyfuß et al. 2002; Brück et al. 2004). Put simply, they argue that "high labour costs diminish competitiveness, whereas low costs improve it" (Beck 2020).

Others like Blanchard (2004) or Saint-Paul (2004) argued in the context of European competitiveness debates for deregulating labour market institutions, lowering unemployment benefits or employment protections. Business leaders highlighted the importance of competitiveness as the guiding principle for European economic policy. While intensified trade liberalization was demanded, unilateral European policies to tackle climate change were seen as a risk to competitiveness, as they generate additional costs for companies compared to those countries that pursue no or weaker climate policies (Seillière 2006). Lower working times in Europe compared to Japan and the US were also viewed critically (de Buck/Strube, 2004). Recently, industry-friendly lobby groups have stressed the importance of lowering energy prices to maintain the EU's competitiveness (BusinessEurope 2024).

2.2.2 Productivity-focused competitiveness

Although discussions on the topic had started before, Michael Porter's book *The Competitive Advantage of Nations*, first published in 1990, is often seen as a major impetus for accelerating the modern debate on competitiveness (Aiginger 2006). Porter argues that it is productivity and innovation-induced productivity gains that determine the ability of a nation to create and maintain high standards of living. Porter can therefore be seen as one of the first proponents of *productivity-focused competitiveness*. Reducing competitiveness to low unit labour costs or trade surpluses is viewed as short-sighted by Porter. He proposes the concept of "competitive advantage", which is a country's ability to create an environment where industries can innovate, improve productivity and compete successfully in international markets. This ability is determined by the "diamond of national advantage" which includes (i) factor conditions, such as skilled labour and infrastructure; (ii) demand conditions; (iii) related and supporting industries, i.e. the presence or absence of supplier industries or clusters; (iv) company strategy, structure and rivalry, which shape how companies are created, organized, make strategic decisions, and position themselves on both domestic and international markets. Accordingly, there is no "one-size-fits-all" approach to achieve competitiveness; rather, countries can gain competitive advantages in different industries with different combinations of factors, as exemplified by various case studies in the book (Porter 1998). Innovation capacities and access to capital markets are viewed as enablers of competitiveness (Porter 2004). Later work within the same framework has stressed that governments cannot improve competitiveness through fiscal and monetary policy, but can do so by creating social infrastructures and strong institutions such as rule of law, property rights, education or public safety (Delgado et al. 2012). Other scholars whose definition of competitiveness falls into the same category include Oughton and Whittam (1997) or partially Boltho (1996), who argue that in the short term relative cost differentials are a significant constituent of competitiveness, but in the long term productivity based on institutional elements is central.

Around the time that the initial concepts of productivity-focused competitiveness were developed, international institutions started publishing regular reports on the competitiveness of nations. Starting in 1979 and lasting until 2020, the World Economic Forum (WEF) published annual reports under the title *Global Competitiveness Report*. Influenced by Porter, from 2004 until 2019 the report defined competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country" (Schwab 2019; Voinescu/Moisoiu 2015).

2.2.3 Beyond-GDP competitiveness

Against the backdrop of the debate on environmental sustainability, other authors, including Karl Aiginger, have argued in favour of an even broader and more comprehensive definition. Here, competitiveness is seen either as the "ability of a country or location to create welfare" (Aiginger 2006), or more holistically as the ability of a country "to deliver the Beyond-GDP goals for its citizens, today and tomorrow" (Aiginger et al. 2013).[1] Therefore, in this paper this approach to the concept of competitiveness is called *beyond-GDP competitiveness*. Proponents of this approach do not argue that price factors are completely irrelevant to a country's competitiveness. Instead they argue that low- and middle-income countries can be successful with a "low-road path" focused on lower costs and prices, while high-income countries should prioritize "high-road paths" focusing on high-quality education, technology and social structures (Aiginger/Vogel 2015). Fundamental to this approach is the centrality of outcome indicators for assessing overall competitiveness, including poverty rates, (youth and long-term) unemployment, resource productivity or greenhouse gas emissions (Aiginger et al. 2013).

In their 2013 paper, Aiginger et al. not only develop an improved concept of competitiveness but also discuss how competitiveness can be evaluated. They conclude from this analysis that focusing solely on price elements risks neglecting other relevant enablers of competitiveness. Additionally, by comparing European with US indicators, they find that with a more broadened outcome perspective, the EU is, at least partially, in a comparatively better position.

1 In parallel to the debate on sustainable development and the UN Agenda 2030 including the Sustainable Development Goals, the beyond-GDP definition of competitiveness was adopted as the basis for various conceptualizations of "sustainable competitiveness", as used e.g. by the Austrian Productivity Council (Produktivitätsrat 2023).

2.2.4 Comparing the three concepts of competitiveness

Table 1: A classification of different concepts of competitiveness

	Market share-focused competitiveness	Productivity-focused competitiveness	Beyond-GDP competitiveness
Context	Increasing globalization, newly emerging industrialized countries	End of Cold War, increasing globalization	Increasing globalization, climate crisis, eurozone crisis
Price elements	Low labour costs, low tax rates, low energy costs	Low labour costs can only boost competitiveness in the short term	Low costs important only for low-income countries, productivity more important for high-income nations
Institutional elements	Business-friendly regulatory environment, weak labour and environmental standards, liberal trade policy, strong business-science relationships, educated workforce	Strong institutions, presence of clusters and supplier industries, correct identification of markets and strategies, educated workforce, good infrastructure, high rates of innovation	Strong social institutions, clusters, social systems, sufficient demand, educated workforce, high-quality goods and services, innovation
Outcome elements	High export market shares and GDP per capita	Increasing productivity as main outcome	Relevance of not only GDP per capita, but also social and ecological indicators
Proponents	Beyfuß et al. 2002; Blanchard 2004; de Buck/Strube 2004	Delgado et al. 2012; Porter 1998	Aiginger 2006; Aiginger et al. 2013; Aiginger/Vogel 2015

Source: own elaboration

To provide a concise overview, Table 1 compares the discussed definitions with respect to the key elements mentioned above. All three concepts discuss competitiveness within the context of an increasingly globalizing world economy, while the beyond-GDP definition also attaches importance to the climate crisis. The question whether price elements – including low labour costs – drive competitiveness is discussed by all concepts. However, only the market share-focused competitiveness scholars view low labour costs as a crucial factor in determining competitiveness. In contrast, the other concepts typically view a narrow focus on labour costs as short-sighted. Regarding the institutional facets of competitiveness, the market share-focused approach explicitly highlights the importance of a business-friendly regulatory environment, especially in the context of the EU. While proponents

of beyond-GDP competitiveness value strong social institutions and social systems, proponents of a market share-focused concept consider lower levels of labour and environmental protections to be relevant. Both productivity-focused and beyond-GDP competitiveness scholars discuss the relevance of identifying and creating markets and demand for goods and services. All concepts discuss the importance of a highly educated workforce and of a modern infrastructure. Arguably the largest differences exist regarding outcome competitiveness. The market share-focused concept of competitiveness views high GDP per capita and high export market shares as important. In contrast, proponents of a productivity-focused definition of competitiveness see high productivity not just as an enabler of competitiveness, but as the key indicator and outcome variable. The beyond-GDP scholars advocate a more holistic approach and highlight the importance of social and ecological indicators.

What becomes clear from this analysis is that a concise and consensual definition of what constitutes competitiveness does not exist. This underscores the importance of clearly defining what is meant when discussing competitiveness in public policy debates.

3. The state of the EU's competitiveness

Following the classification of competitiveness concepts elaborated above, indicators for the three different concepts are presented below, benchmarking the competitiveness of the EU against that of the US. It must be stated that the discussion of an indicator with respect to a concept of competitiveness does not mean that this indicator is only relevant for this specific concept. On the contrary, some indicators are relevant for multiple or all concepts, though different weights may be assigned to them. Wherever possible, indicators are presented on major economic activity level as well as detailed economic activity level for key high-tech sectors. As a result, the strengths and weaknesses of the EU economy can be more precisely identified. Unfortunately, statistical offices, especially Eurostat, often do not provide statistics such as unit labour costs (ULCs) or labour productivity on a disaggregated level. Hence, the authors were forced to conduct their own calculations. These indicators are then compared to Draghi's (2024c) empirical results. We will argue that Draghi's conclusions are somewhat abridged, as they do not do justice to the complexity of the presented statistics and neglect some relevant statistics entirely.

3.1 Market share-focused indicators

Following the market share-focused concept of competitiveness presented above, several relevant indicators for assessing an economy's competitiveness can be

identified. Unit labour costs and energy costs are utilized to assess competitiveness regarding price elements from a market share-focused perspective. Activity profitability statistics are used to assess outcome elements from a market share-focused perspective.

3.1.1 Input-related price elements: Labour costs and energy prices

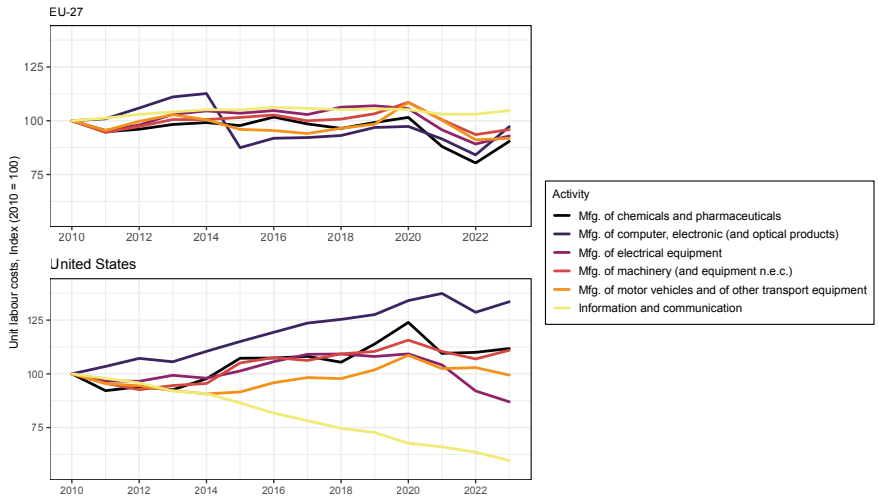
In the introduction of the market share-focused concept of competitiveness, we showed that multiple authors (Beck 2020; Beyfuß et al. 2002; Brück et al. 2004) explicitly argue that there is a negative correlation between rising labour costs and competitiveness. To compare the competitiveness of the EU and the US in this regard, the following figures show the development of unit labour costs in both economies from 2010 to 2024. Unit labour costs are defined as the ratio between the compensation of employees from national accounts statistics and total output in the respective sector, both at basic prices. For the EU's main economic activities, data was acquired from Eurostat (2026c) national accounts statistics. This was not possible for detailed activities, as Eurostat national accounts data is incomplete on a disaggregated industry level. Hence, Eurostat (2026e) symmetric input-output tables had to serve as a replacement. For the US, the Bureau of Economic Analysis's industry economic (BEA 2025b) and national income accounts (BEA 2025d) were used.

Figure 1: Unit labour costs, main economic activities

Note: Unit labour costs = Compensation of employees/Output
Own calculations; Sources: Eurostat, BEA

Figure 1 shows the development of ULCs on the main activity level. It can be observed that, generally speaking, on a total economy level ULCs are slightly below 2010 values for both economies, with the decrease being slightly (0.29pp) more pronounced in the United States. Because of the figure's starting point, relatively higher ULC increases in the EU compared to the US before 2010 cannot be seen. In both economies a period of rising ULCs before the Covid-19 pandemic and a sudden increase during the pandemic – caused by lower output due to lockdowns – can be noted. Since 2022, however, an increase in ULCs in the US of 2.59pp can be observed; in the EU this increase amounted to 6.54pp. Differences arise when developments regarding ULCs in the manufacturing and service industries are analysed. In EU manufacturing, ULCs were 2.13% lower in 2024 than in 2010; in the US they increased by 12.86% in the same period. In contrast, in US service industries, ULCs decreased by 6.58% between 2010 and 2024, while in the EU they decreased by a mere 1.49%.

Figure 2: Unit labour costs, key detailed economic activities



Note: Unit labour costs = Compensation of employees/Output
Own calculations; Sources: Eurostat, BEA

Figure 2 shows the development of ULCs for specific high-tech activities that the innovation literature typically considers key to determining competitiveness. The time period is 2010 until 2023, as more recent data were not available. Some differences exist between EU and US nomenclature, as indicated in parentheses. However, mostly the same activities are included. In contrast to the European NACE classification, the North American NAICS classification does not recognize the manufacture of pharmaceutical companies as a 3-digit subsector (Office of Management and Budget 2022). For the case of the EU, pharmaceutical and chemical manufacturing

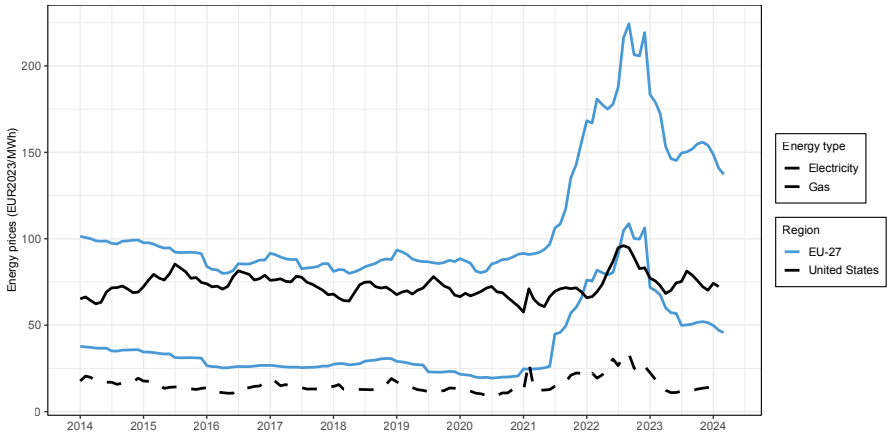
were combined. Observing Figure 2, significant differences between the EU and US become evident. In all included manufacturing activities, European firms saw decreases of ULCs in the range of 9.58% (chemicals and pharmaceuticals) and 2.74% (computer, electronic and optical products). In contrast, ULCs in *Information and communication* activities have increased by 4.71%. As in Figure 1, a period of increasing ULCs can be observed since 2022. It is therefore possible that the trend of decreasing ULCs is starting to reverse. Meanwhile, sectoral heterogeneity in the US is larger. While ULCs in *Information and communication* activities have decreased by 40.29%, the ULCs of most selected manufacturing activities increased. Only in the *Manufacture of electrical equipment* was a significant decrease of 13% observed. Activities such as the *Manufacture of chemicals and pharmaceuticals* (+11.7%) and the *Manufacture of computer, electronic (and optical) products* (+33.54%) witnessed significant increases of ULCs.

All in all, according to the calculations presented here, neither the EU nor the US was able to gain wide-reaching price competitiveness over each other as far as ULCs are concerned. While there were some gains for the EU in manufacturing activities, these were offset by gains for the US in service activities.

However, labour costs are not the only input price component that is relevant from a market share-focused perspective. In recent years, especially following the war in Ukraine and ongoing decarbonization efforts, the competitiveness of EU energy prices became a talking point. Since 2014, the EU Commission has published six reports on energy prices and costs, accompanied by external studies. Additionally, the Commission provides five visualization tools concerning energy costs and prices for EU industries and households in comparison with major trading partners (European Commission 2025b). Figure 3 shows the development of EU and US energy retail prices for industry in 2023 prices from January 2014 to February 2024. The data is provided by the dashboard for energy prices in the EU and main trading partners (European Commission 2025a). It can be observed that while both electricity and natural gas prices were higher in the EU even before the energy price crisis, the gap has grown significantly since 2021. In January 2020, the natural gas prices paid by EU industry were 67.6% higher than those paid by their US counterparts. In January 2024 they were 228.6% higher, meaning the ratio more than tripled in size. Electricity retail prices paid by EU industry in January 2020 were 33% higher than US prices. This gap also increased by around a factor of three and by January 2024 prices were 100.3% higher in the EU than in the US. Not only did the energy price crisis affect the EU much more strongly at the time, but it has also had impacts that last to the present day.

The 2024 study on energy prices and costs discusses the impact of rising energy costs on the EU's competitiveness on a detailed industry level (Trinomics 2025). Unfortunately, data on a sufficiently comprehensive scale is only available up to 2021.

Figure 3: Industry energy retail prices



Note: EU and US industry energy retail prices, excluding recoverable taxes and levies
Source: European Commission

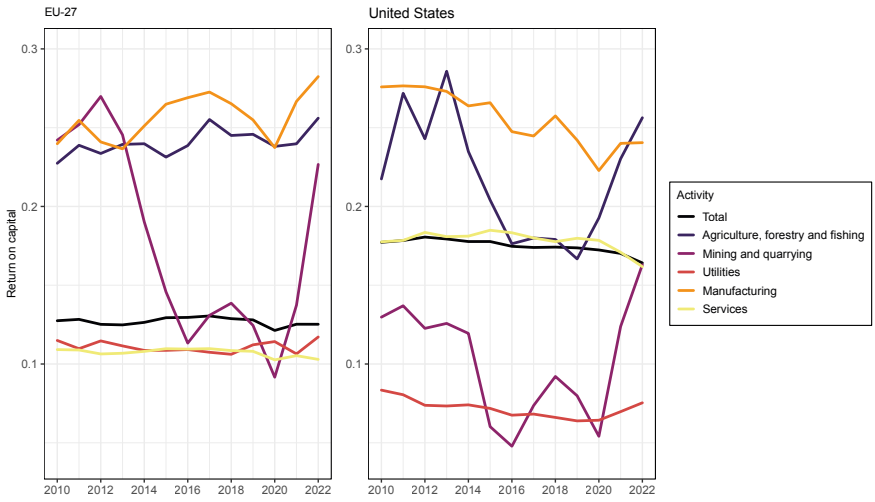
The authors of the study show that for most European activities – and for all activities that we previously defined as key to EU competitiveness – the share of energy costs in total production costs either decreased or stayed constant in the period 2014–2021. However, unsurprisingly this trend was reversed in 2021 with the full extent of the energy price crisis' effect not yet visible in the data available. In general, during this period energy cost shares within the EU tend to be lower or comparable to other G20 countries. To investigate recent developments, Trinomics (2025) supplement data collected directly from 81 plants across ten industrial sectors in 2023. These mainly include energy-intensive industrial activities, but also the strategic *Batteries* and *Automotive* activities. They find that in activities such as *Aluminium, Ferro alloys and silicon,* or *Chemicals,* energy costs are significantly lower in competitor countries. These price increases did correlate with production and profitability decreases. However, for the *Batteries* and *Automotives* activities this impact on competitiveness was lower due to lower energy intensity.

By way of summary, labour costs within the EU do not appear to develop in a manner that would be harmful to industrial competitiveness. Quite the contrary: the calculations presented in this chapter present the EU favourably in this regard. However, rising energy prices could constitute a danger to the competitiveness of especially energy-intensive manufacturing in the EU.

3.1.2 Assessing output elements using profitability

As argued in section 2.2.1, competitiveness by proponents of what we call a market share-focused perspective first defined competitiveness as the ability of a country and its companies to be successful on global markets (Delgado et al. 2012). In this regard, examining the profitability of individual industries seems warranted. Several methods exist to calculate activity-wide profitability using national accounts data. A common way is to calculate profit shares, e.g. the ratio of gross operating surplus and gross value added. In this case, this is not a suitable method as the profit share shows the distribution of value added between capital and workers and says little about the profitability of an activity. Instead, we decided to calculate the gross return rate on capital, dividing an activity's gross operating surplus by its total fixed assets. Gross operating surplus is again obtained from industry-by-industry symmetric input-output tables provided by Eurostat (2026e) and from the BEA's industry economic accounts (BEA 2025a). Data on capital stocks by economic activities are also provided by Eurostat (Eurostat 2025b) and the BEA (BEA 2025a).

Figure 4: Profitability, main economic activities



Note: Profitability = Gross operating surplus/Total net fixed assets
Own calculations; Sources: Eurostat, BEA

Unfortunately, Eurostat's fixed assets data are incomplete: for some activities data are not available for every member state. Hence, calculations could only be performed on a major sector scale. Data are also only available until 2022. Results are shown in Figure 4. Between 2010 and 2022, both economies witnessed small overall decreases in return rates on capital. In the EU for the sum of all industries, they decreased from 12.66% to 12.32%, in the US from 16.45% to 15.22%. Both in the EU

and the US the construction and manufacturing industries are the most profitable as far as return rates on capital are concerned. Construction in the US (88.47% in 2022) has especially high return rates on capital, also compared to the EU (30.7%). As the construction sector is a significant outlier compared to the other activities, it was excluded from the figure to increase readability. In manufacturing activities (EU: 27.01% in 2022, US: 24.11%) higher return rates can be observed in the EU. The fact that return rates on capital in total are higher in the US is mainly influenced by the return rates observed in the very large services sector (EU: 10.29% in 2022, US: 16.18%).

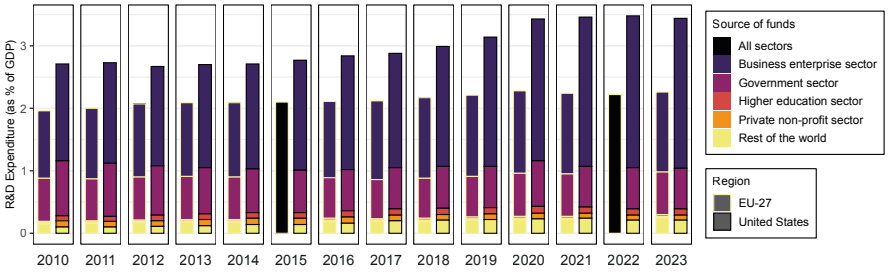
3.2 Productivity-focused indicators

In section 2.2.2, we argued that proponents of what we defined as a *productivity-focused* concept of competitiveness view productivity as the key outcome element of competitiveness. Hence, in this section we will discuss and compare productivity indicators for EU and US industries. Before that, however, it is also of relevance to examine the enablers of productivity and consequently competitiveness from the perspective of a *productivity-focused* concept of competitiveness. As Porter (2004) views innovation as an enabler of competitiveness, we will focus on the topic of R&D. Additionally, Draghi (2024b) argues that closing the innovation gap with the EU's competitors is pivotal for European competitiveness.

3.2.1 Research and development indicators

To assess the innovation abilities of the EU in comparison with the US, we will consult statistics on the topic of R&D expenditures and outcomes.

Figure 5: R&D expenditure by source of funds



Sources: Eurostat/OECD

Figure 5 shows gross domestic expenditure on R&D by source of funds in the EU and the US as a percentage of GDP for the years 2010 to 2022.[2] Data are obtained from Eurostat and the OECD (Eurostat/OECD 2025). In the sub-plot for each year, the stacked bar on the left shows EU R&D expenditure, the stacked bar on the right shows US R&D expenditure. For the years 2015 and 2022 the data for the EU was incomplete; therefore, no disaggregation by source of funds can be provided. Three observations can be made. First, over the entire period gross domestic R&D expenditure was higher in the US than in the EU. Second, this gap increased over time. In 2010, R&D expenditure in the EU amounted to 1.96% of GDP, in the US it amounted to 2.71% – a gap of 0.77pp. By 2022 this gap increased to 1.26pp. Third, this gap is mainly driven by the R&D expenditure of the business enterprise sector. The business enterprise sector includes both private and public enterprises, as long as they operate on a market basis (OECD 2015). In 2021, the US business enterprise sector recorded R&D expenditure amounting to 2.39% of GDP. In contrast, the EU business enterprise sector only recorded R&D expenditure amounting to 1.29% of GDP. Regarding the provision of financial resources for innovation, an inferior performance of the EU compared to the US can hence indeed be determined. Following on from this, an investigation of R&D expenditure by economic activity would be warranted. Unfortunately, while Eurostat (2025) does in theory provide data on business enterprise expenditure on R&D by economic activity, the data are very incomplete. For example, it is not possible to obtain data for EU-wide R&D expenditure in the information and communication technology (ICT), manufacturing or pharmaceutical activities. This again emphasizes the difficulty of providing a nuanced analysis of the EU's state of competitiveness.

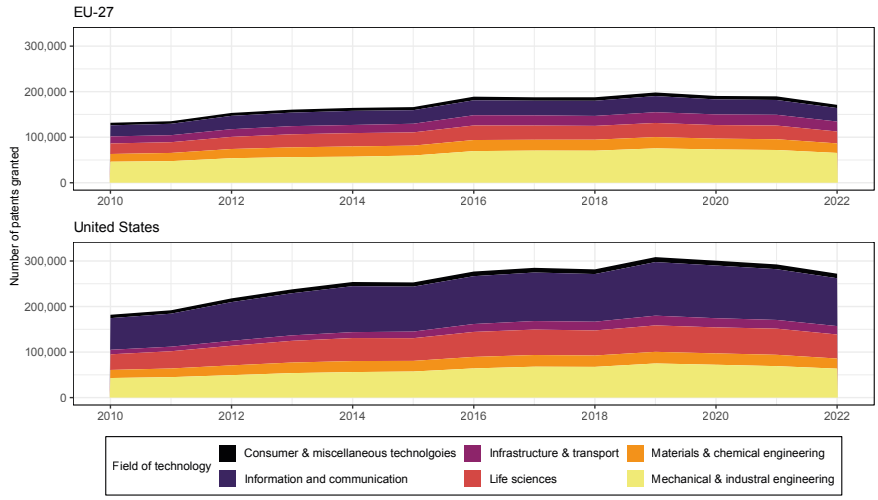
To assess the outcome of R&D endeavours, Figure 6 depicts patent grants by technology and applicant's origin. Data are obtained from the World Intellectual Property Organization's (WIPO) intellectual property statistics data centre (WIPO 2024). Data were aggregated by larger fields of technology.[3] Again, it can be observed that through the entire depicted period, the number of patents granted to US applicants was higher than those granted to EU applicants. The gap between

2 Publications such as the Frascati Manual (OECD 2015) discuss how R&D is organized differently in the EU and the US. More frequent extramural R&D in the US and the capitalization of development costs in the EU can influence statistics and make R&D intensity in the US appear comparatively higher than it is.

3 Consumer technologies consist of furniture/games and other consumer goods. Infrastructure & transport consist of transport and civil engineering. Materials & chemical engineering consists of macromolecular chemistry/polymers, basic materials chemistry, surface technology/coating, chemical engineering, and environmental technology. Information and communication technology includes audiovisual technology, telecommunications, digital communication, basic communication processes, computer technology, IT methods for management, semiconductors, and optics. Life sciences consist of analysis of biological materials, medical technology, organic fine chemistry, biotechnology, pharmaceuticals, and food chemistry. Finally, mechanical & industrial engineering consists of electrical machinery/apparatus/energy, measurement, control, microstructural and nanotechnology, handling, machine tools, engines/pumps/turbines, textile and paper machines, other special machines, thermal processes and apparatus, and mechanical elements.

patents granted to EU and US applicants increased in both absolute and relative terms. Heterogeneity exists between different fields of technology. In 2022, the EU applicants had slight surpluses within the fields mechanical & industrial engineering, as well as infrastructure & transport, compared to US applicants. US applicants had slightly more patents granted in the materials & chemical engineering and consumer technology fields. Dramatic differences can be observed when the fields information and communication technology and life sciences are examined, which roughly correlate with the key, high-tech economic activities defined above. In 2022, 113,726 patents were granted to US applicants in the field of information and communication technology. Only 29,851 patents were granted to EU applicants in the same field – around a quarter of the US amount. In the field of life sciences, 52,966 patents were granted to US applicants in 2022. In contrast, 25,301 life sciences patents were granted to EU applicants, roughly half the US amount.

Figure 6: Patent grants by technology and applicant's origin



Source: WIPO

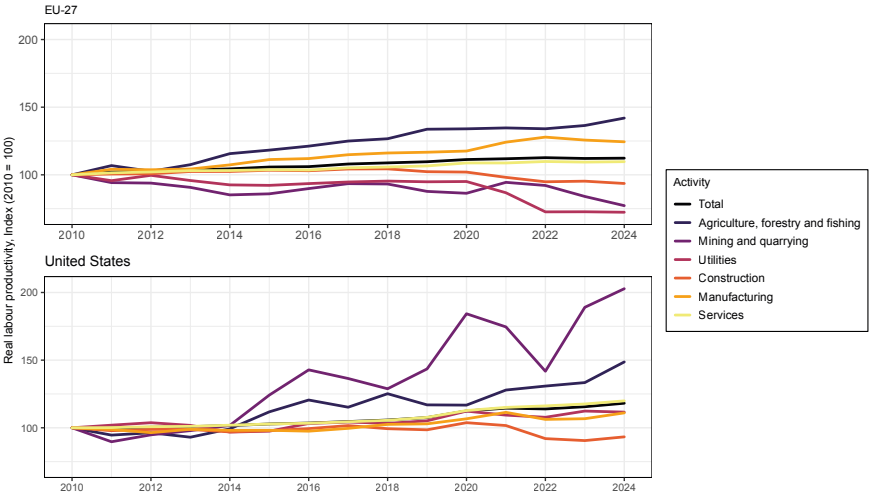
Putting both figures together, it appears as if there indeed is an "innovation gap", as was argued by Draghi (2024b). This gap seems to be driven by relatively low R&D expenditure by EU business enterprises. As far as the number of patents granted is concerned, there appears to be no sizeable difference in technology fields such as consumer technologies, infrastructure & transport or materials, chemical, mechanical, and industrial engineering.

3.2.2 Labour productivity

Labour productivity is one of the most discussed indicators in the context of comparing the competitiveness of different economies. However, labour productivity statistics are often only shown on the national economy level. One notable exception is the Draghi Report, which provides labour productivity statistics for a selected number of industries and a selected sample of EU countries (Draghi 2024a).

Comparing readily available labour productivity statistics is difficult. On the one hand, definitions are inconsistent. Both measures that define productivity as GDP (or GVA) per one hour worked and gross output per hour worked are common. On the other hand, data on disaggregated activity level are hard to come by, especially for the European Union. In this paper, we define labour productivity as real gross value added per hour worked. Figure 7 shows the development of labour productivity for the EU and US by main economic activities. Data were obtained from Eurostat national accounts statistics (Eurostat 2026b, 2026c), the BEA (2025e) and the BLS (2025).

Figure 7: Labour productivity, main economic activities



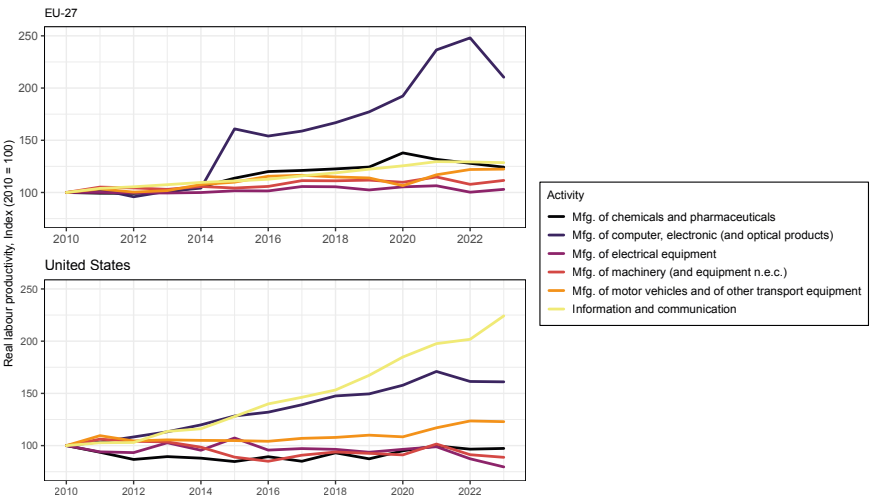
Note: Labour productivity = Real gross value added / Hours worked
Own calculations; Sources: Eurostat, BEA, BLS

In Figure 7 it can be observed that in total, labour productivity in the EU increased by 12.3% between 2010 and 2024, while in the US it increased by 18.15%. Up until 2020, both economies were on a similar trajectory regarding productivity growth. Since then, productivity growth in the EU has stagnated, whereas it has continued to increase in the US. EU manufacturing activities recorded higher productivity

gains (24.41% vs. 11.01%) than their US counterparts. However, the entirety of this growth again occurred before 2020, with small productivity declines in EU manufacturing activities since then. In contrast, labour productivity in service activities increased by 19.89% in the US between 2010 and 2024 and by only 9.72% in the EU. Furthermore, mining and quarrying, as well as utilities activities, recorded productivity gains in the US and losses in the EU.

Figure 8 shows labour productivity statistics for the same selected detailed economic activities as above. There was no available Producer Price Index (PPI) for the activity *Computer programming, consultancy, and information service activities,* only for the activities *Computer programming, consultancy and related activities and Information service activities.* Therefore, the average of the two activities was taken to convert gross value added into real prices for the activity *Computer programming, consultancy, and information service activities.* Hours worked by activity are obtained from Eurostat population and employment in national accounts statistics (Eurostat 2025c). Finally, we calculated labour productivity by dividing GVA by hours worked by activity and subsequently converted this into an index with 2010 as 100. Calculating labour productivity for US activities was more straightforward, as we were able to obtain both hours worked by activity and real GVA by activity from the BEA's (2025b) industry economic accounts.

Figure 8: Labour productivity, selected detailed economic activities



Note: Labour productivity = Real gross value added / Hours worked
Own calculations; Sources: Eurostat, BEA, BLS

Figure 8 shows labour productivity for the detailed activities selected for the purpose of this paper. Parentheses again indicate that activities have slightly different,

albeit still comparable, definitions within the NACE and NAICS classifications. Sufficient data for the activity *Manufacture of pharmaceuticals* were only available for the EU; for the US, only data for the larger *Manufacture of chemical products* activity, which incorporates the manufacture of pharmaceuticals, were obtainable. For the EU, data for gross value added by activity were obtained from Eurostat symmetric input-output tables (Eurostat 2026e). As the input-output statistics are constructed in current prices, they first needed to be converted to real prices. For the manufacturing activities, producer price indexes were used (Eurostat 2026d). For the activity *Information and communication*, it was possible to calculate the implicit deflator by comparing real and current price GVA from regular national account statistics (Eurostat 2026c). Data regarding hours worked by activity were obtained from Eurostat national account statistics as well (Eurostat 2026b). For the US, data were again obtained from the BEA (2025e) and the BLS (2025).

Based on the constructed dataset, it can be observed that the EU-27 gained a productivity advantage in the *Manufacture of computer, electronic, and optical products*. Between 2010 and 2023, productivity in the sector increased by 110.37% in the EU and by 61.05% in the US. In contrast, productivity gains in the *Information and communication* service activities were much higher in the US (124.19%) than in the EU (~28.57%). Labour productivity in EU chemical manufacturing activities increased by ~24.26%, while in the US they decreased by 2.70%.

At this point, issues regarding data availability, comparability, and consistency need to be discussed. As stated above, there are various ways to define labour productivity. Additionally, differences regarding the conversion from current to real prices can create inconsistencies, which could be a potential caveat of this paper's approach. One the one hand, these issues may explain why productivity analyses at the detailed economic activity level were not conducted frequently in the past. This again highlights the need for better statistics on the activity level. One the other hand, these issues also show that productivity indicators need to be taken with caution and do not suffice to assess competitiveness alone.

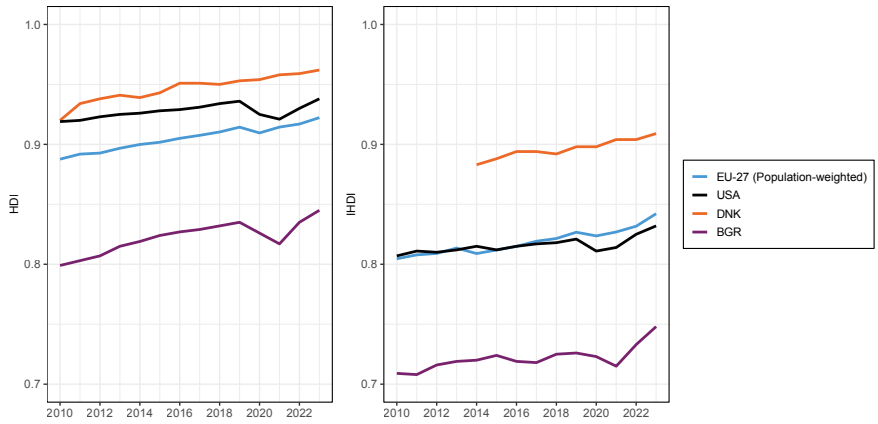
3.3 Beyond-GDP indicators

To finish the assessment of European competitiveness from the perspective of three different conceptualizations of the term, we now address the beyond-GDP notion of competitiveness. Aiginger et al. (2013) show that there is a plethora of indicators suitable for discussions from a beyond-GDP perspective that exceeds the scope of this paper. In the following, we focus on human development, GDP and resource efficiency indicators.

3.3.1 Comparing HDI trajectories

A commonly used indicator to assess economic development from a beyond-GDP perspective is the Human Development Index (HDI) provided by the UN Development Programme. It includes indicators on life expectancy, education and GNI. Less known is the inequality-adjusted HDI (IHDI) introduced in 2010, which accounts for inequality in health, education and income. Figure 9 shows both indicators. Data were obtained from the UNDP (2025).

Figure 9: Human Development Indexes



Note: EU-27 = own aggregation; Source: UNDP

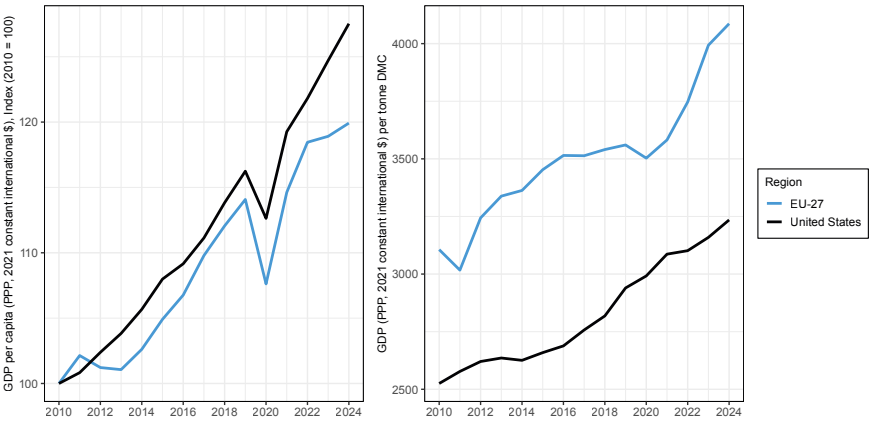
As there is significant heterogeneity within the EU regarding (I)HDI, the two plots show the values for a population-weighted EU-27 average, the United States, as well as the EU countries with the highest (Denmark) and lowest (Bulgaria) HDI values in 2023. Population weighting was performed using OECD (2025a) population data. The left-hand plot shows the standard Human Development Index. It can be observed that on average, the HDI of the US is higher than that of the EU-27. However, in the years 2010–2023 it must be noted that the EU-27 caught up, driven by both the upper and lower tail of the member states distribution. In 2010, the population-weighted EU-27 average HDI was 0.887, while the US's HDI was 0.919. In 2022, the population-weighted EU-27 average HDI was 0.922, while the US's HDI was 0.938. The right-hand side of the plot shows the inequality adjusted HDIs. Data for Denmark were only available for years from 2014 onwards. Adjusting for inequality visibly reduces both the EU-27's and the US's HDI by around 10%. However, this reduction is stronger for the US, leading to the EU-27 surpassing the US in terms of IHDI in 2017.

3.3.2 GDP and resource productivity

Finally, from an outcome perspective the beyond-GDP conceptualization of competitiveness advocates – as the name implies – for including other indicators besides GDP, not necessarily excluding it (Aiginger et al. 2013). In this section, the paper focuses on relating GDP to ecological concerns by presenting statistics on resource productivity, i.e. GDP per tonne of domestic material consumption (DMC). The plot on the left of Figure 10 shows indexed GDP per capita (Purchasing Power Parity – PPP) in constant 2021 international USD. Data were obtained from the World Bank (n.d.). As far as level GDP per capita is concerned, as early as 2010 there was a gap between the two economies. The US recorded a GDP of US $59,789.41 per capita, while the EU recorded a GDP of US $45,250.39 per capita. As Figure 10 shows, this gap has widened between 2010 and 2024, as GDP grew by 26.26% in the US and by only 20.08% in the EU. The growth trajectories of both economies diverged especially since the pandemic.

The plot on the right of Figure 10 shows the resource productivity of both economies, defined as GDP per tonne of domestic material consumption. Again, World Bank GDP data were used; statistics on DMC were obtained from OECD material flow accounts (2025b). It can be observed that in 2024, resource productivity in the EU-27 was US $3,783.40 per tonne of DMC while in the US it was only US $3,101.25 per tonne. Between 2010 and 2024, resource productivity increased by 30.29% in the EU and by 28.40% in the US.

Figure 10: GDP and resource productivity



Resource productivity = Own calculation; Sources: World Bank, OECD

From this perspective, higher nominal GDP in the US is the outcome of a different economic structure, based on largely privatized public services and social systems

with inflated expenditure dynamics that deliver inferior results compared to the European welfare system. The EU-27 provide more equal living standards and require less resources to do so. In times of the climate crisis and the increased importance of supply chain resilience due to changing geopolitical conditions, the latter point seems especially relevant.

3.4 Summary: Fearmongering unwarranted, but challenges remain

Section 3 tried to systematically assess indicators corresponding to the different strands of competitiveness conceptualizations defined in Section 2. Subject to limits on data availability and comparability, the objective was to benchmark the state of the EU-27's competitiveness in comparison to the US. By no means does this paper profess to provide a completely comprehensive analysis. With a term as multifaceted as competitiveness, this would be a bold claim. However, a few important conclusions can indeed be drawn. First, and perhaps foremost, results vary considerably across different conceptualizations. An assessment based on a market share-focused concept of competitiveness comes to very different conclusions than one based on productivity. Thus, the choice of concept largely predetermines the outcome. To arrive at both a more comprehensive and nuanced assessment, a fuller picture based on a combination of different conceptualizations is needed. Adopting this perspective, the following observations are warranted:

First, labour costs in the EU-27 did not develop in a way that should have harmed competitiveness with the US between the years 2010 and 2024, even though post-pandemic increases in labour costs in the EU have accelerated. Second, while productivity in the EU-27 grew relatively strongly in manufacturing activities, this is not the case for services activities. Third, there is – as Draghi (2024b) prominently stated – an innovation gap that can be observed in both R&D expenditure and patent grant statistics. This gap is especially pronounced in key sectors such as ICT and life sciences. Fourth, EU companies fall behind their US competitors in terms of profitability, which is closely connected to the high profitability of the US tech giants. Fifth, high energy prices pose a risk to the competitiveness of the EU-27's manufacturing activities. Sixth, by employing a beyond-GDP perspective on outcome indicators, one can conclude that the EU-27 provides more equal living standards and requires less resources to do so.

All in all, the state of EU competitiveness does not appear as bleak as insinuated by both the Draghi Report and the recent public discourse. Nevertheless, specific challenges, especially with respect to energy and innovation, need to be addressed. Whether the policy approach suggested by the Draghi Report and adopted by the Commission is fit for purpose, will be discussed in the subsequent section.

4. What EU policy agenda on competitiveness is needed?

With the Draghi Report (2024a) and the EC's Competitiveness Compass, the debate on the EU's competitiveness returned to the centre of economic policy discussions from mid-2024. This was at least partially induced by geopolitical conflicts such as the war in Ukraine and the trade conflicts started by the second Trump administration. The exposure of strategic dependencies during the Covid-19 pandemic surely also played a part, as did the comeback of industrial policy in the US during the Biden administration and China's development from being a producer of cheap consumer goods to an economy with large high-tech and ICT sectors. Both the Draghi and Letta Reports on the future of the single market and its competitiveness address these new geopolitical challenges (Draghi 2024a; Letta 2024).

Notably, and in contrast to e.g. the Lisbon Agenda of 2000, the Draghi Report puts a strong focus on productivity growth as the central objective of a new competitiveness agenda. In his definition of competitiveness, he rejects the market share-focused view of competitiveness, that is, viewing international trade as a zero-sum game with the goal of maximizing export shares. Also, the report rejects a narrow focus on lowering labour costs, though it acknowledges that the currently high energy costs for European industries are of serious concern and should be tackled via a reform of the EU energy markets and accelerated decarbonization. Instead, Draghi argues that nowadays the major drivers of competitiveness are knowledge and skills embodied in the labour force as well as innovation and technological progress (Draghi 2024a). Similar to Porter (1998), productivity is seen as the key goal of competitiveness strategies. However, due to the changing geopolitical landscape, Draghi (2024b) also views security and resilience as relevant for competitiveness. In the context of the Twin Transformation, access to critical raw materials, for instance, is seen as critical. In addition, high levels of human development, health, education, good governance and environmental protection are emphasized, though for Draghi social well-being and environmental protection can only be achieved and maintained through a dynamic and wealth-generating economy. Such a causal understanding of the relation between economic growth and the natural environment is of course problematic, as the overall productivity of an economy (i.e. total factor productivity) will be negatively affected by a deteriorating environment, in particular if environmental tipping points are not respected (Lenton et al. 2023). Also, the underlying assumption that there is a trade-off between economic growth and environmental protection, is not supported by much recent research (Stern/Stiglitz 2023), while the economic costs of implementing environmental policies tend to be overestimated, as estimations often rely on the wrong counterfactuals (Pilat 2024). Thus, while the Draghi Report bears some similarities to the beyond-GDP approach advocated by Aiginger et al. (2013) as well as the concept of sustainable competitiveness as first introduced by the World Economic Forum and later taken up by the European Commission, its conceptualization of

the relationship between economic growth and environmental protection is problematic. Hence, we argue that by and large the Draghi Report should be viewed as a proponent of a renewed, though conventional, productivity-focused definition of competitiveness.

Without a doubt, the Draghi Report has been of fundamental importance for shaping recent EU economic policy, as can be seen e.g. in the EC's (2025a) communication on *A Competitive Compass for Europe* and the *2025 Communication on the Single Market* (European Commission 2025d). These documents are explicitly based on the analysis in the Draghi Report, in particular on the three "transformational imperatives" identified by Draghi to strengthen EU competitiveness. These are (i) closing the innovation gap, (ii) developing a joint roadmap for decarbonization and competitiveness, and (iii) reducing excessive dependencies and increasing security. More in line with the market share-focused competitiveness definition, the Draghi Report considers a more simplified and less burdensome regulatory environment and a deepening of the common market as indispensable for a thriving high-tech sector in particular, including through the establishment of a 28th regulatory regime for start-ups and scale-ups. With respect to industrial and innovation policies, Draghi (2024c) proposes setting up an "ARPA-type" innovation agency, the development of an R&I action plan, and a host of specific policy instruments for high-tech sectors. But Draghi goes beyond a conventional supply-side agenda and strongly emphasizes the provision of financial resources for R&D and investments, with €800 billion per annum seen as the minimum needed for a ten-year period. Both public funding, in particular via the issuance of an EU common safe asset, and the establishment of a savings and investment union to mobilize private finance are proposed in this regard.

While the Draghi Report includes a host of pertinent policy proposals, it also suggests problematic measures such as the securitization of loans, or the introduction of the 28th regime of corporate governance. The latter would exempt start-up and scale-up companies from having to comply with the respective national regulatory environment, thus potentially leading to a race to the bottom for national standards in corporate law, labour law or taxation (Meyer-Erdmann/Hoffmann 2025). The main problem associated with the Draghi Report, however, has to do with its selective and biased implementation by European policymakers. More specifically, the host of recent implementation initiatives proposed by the European Commission as well as many national governments, is almost exclusively focused on across-the-board deregulation. To be sure, the Draghi Report speaks at length about the need for regulatory simplification, but its strategic trajectory focuses on improving the business environment for innovative start-ups by leveraging the scale of the European single market. It does not argue in favour of dismantling the social and environmental acquis. Yet, this appears to be precisely what the European Commission is doing with the Omnibus initiatives, the overall goal of which is

to achieve at least a 25% reduction in administrative burdens for businesses, and at least 35% for small and medium-sized enterprises until 2029. For the year 2025, nine Omnibus Packages have been announced (Ey 2025), focusing on a broad range of issues, in particular sustainability standards (Omnibus I), investment facilitation (Omnibus II), digital issues, chemicals regulation, agriculture, etc. What has been proposed so far, however, is not confined to reducing the administrative burden attached to a particular regulation (e.g. reporting requirements) but extends into the core substance of existing EU regulations. For instance, with respect to the EU corporate due diligence directive (EUCS3D), the EC has proposed reducing the scope of the regulation to only very large companies, limiting due diligence obligations to direct suppliers, and removing civil liability against companies in the case of infringements, all of which constitute core aspects of the regulation. In effect, instead of regulatory simplification, it appears that a significant dilution of social, environmental and consumer protection standards will be the outcome of what is publicly presented as a reduction in administrative burdens for companies.

Whatever its true intentions, it is important to underline that this deregulatory agenda's contribution to fostering the EU's competitiveness will be minimal, if not counterproductive. The Commission's argument that the cost savings for companies will free up resources for investment in new technologies and products, is hardly corroborated by the evidence. For instance, the Commission has presented estimates that Omnibus Packages I and II will lead to annual administrative cost savings of around €6.3 billion or 0.04% of EU GDP (European Commission 2025e). As most of the respective regulations have not yet been implemented, the estimated cost savings are purely fictitious. What is more, the (expected) social benefits of these regulations have been excluded from the estimation exercise, as the Omnibus Packages have not been subjected to a regulatory impact assessment, which is otherwise mandatory under EU law. But even assuming that this deregulatory agenda will lead to cost savings for companies, it is not clear a priori that companies will use the free resources for investment and innovation purposes. Given the EU's dire economic outlook, it might well be the case that these resources are saved or used for shareholder payouts.

Moreover, there is a plausible argument to be made that in the long term, the deregulatory agenda will actually undermine European competitiveness. The original logic for e.g. introducing corporate sustainability measures such as the CS3D and CSRD was to leverage the size of the EU market – representing a full 20% of global consumption – to raise labour and environmental standards worldwide. In the absence of multilateral institutions powerful enough to enforce compliance with, for instance, ILO Core Labour Standards or the Paris Climate Agreement, the EU wanted to level the global playing field by requiring private companies and their extensive supply chains to impede the social and environmental dumping that damages

European producers (Duval 2025). Similar arguments apply with respect to other Omnibus initiatives, for instance on chemicals or data protection.

Devoid of sound economic logic, the prevailing deregulatory agenda of the EC will do little to contribute to increasing the EU's competitiveness as outlined by the Draghi Report. In fact, Draghi's recent pronouncements have been rather critical of the lack of substantive action by EU policymakers to implement the agenda he proposed in his report (see e.g. Draghi 2024c). Notably, not only for Draghi but more recently also for other prominent EU policymakers like ECB President Christine Lagarde,[4] it has become clear that the future sources of growth for the European economy will not come from exports but must come from catalysing domestic sources of growth. If this is the case, then the current agenda's focus on lowering EU regulatory standards vis-à-vis international competitors is simply beside the point.

In contrast, EU policymakers would be well advised to tackle the innovation deficit and the energy issue with a targeted set of measures. With respect to the innovation deficit, innovation policies should be based on a transformative mission-oriented approach (Edler et al. 2025). The policy focus should be oriented towards high-tech and key enabling technologies (KETs), as these serve as innovation drivers and provide the foundation for sustained competitiveness, prosperity and productivity gains across sectors. By investing in KETs, such as advanced manufacturing, nanomaterials, life sciences, microelectronics, photonics and quantum technologies, Europe would not only foster the emergence of future general-purpose technologies (GPTs), but also strengthen technological sovereignty and resilience in the face of global competition. Given recent experience with mission-oriented approaches in the EU (Mazzucato/Kattel 2025), it will be of critical importance to strengthen state capacity and capabilities, as they provide the strategic foresight, policy coherence and implementation power needed to properly plan, fund, regulate, monitor and adjust the many interdependent initiatives that KETs and GPTs require. Governments could also use public procurement to proactively stimulate market demand for new technologies and products in a more systematic fashion (Mazzucato et al. 2025). Targeted public support should be coupled with strong performance standards and social conditionalities for companies (Mazzucato/Rodrik 2023). It is also crucial that policies ensure broad and socially balanced access to high-tech benefits, addressing risks of inequality, digital divides and social exclusion through education, infrastructure and inclusive frameworks.

The energy issues in the European Union relate both to security of supply and high prices. The Draghi Report proposes a reform of the EU energy markets, where the

4 See Christine Lagarde's speech at the European Banking Forum on 21 November 2025 (https://orf.at/stories/3412232/; accessed 15 May 2026).

merit order principle leads to inflated prices, and accelerated decarbonization. Though both proposals are straightforward in their economic logic, implementation is progressing too slowly. We agree that the only long-term solution to effectively resolve both problems is the accelerated shift to renewables, though we think the report's confidence in the private sector supplying the necessary investment is not supported by the facts (Christophers 2025). Economic remedies, such as the recently implemented "Industriestrompreis" in Germany (also planned in Austria), i.e. a subsidized cap on energy prices for energy-intensive industries, will bring short-term relief at best, but will not solve the underlying problem (Südekum/Weichenrieder 2023). Instead, a massively scaled-up EU investment programme for renewable energy, with a focus on solar, wind, geothermal and green hydrogen, will be pivotal. At the same time, the electricity grids must be expanded quickly and the gas grids must be dismantled or converted. Battery and pumped storage, flexibilities and digitalization must be systematically integrated in the energy system. Energy storage, smart grids, e-mobility with the integration of charging infrastructure and vehicles as flexible storage, as well as flexibly controllable power plants and digital platforms for intelligent networking and control, must be enforced. Given the higher prices for renewable energy in Europe and because of private capital's insufficient and declining interest in investing in renewables and transforming the energy system, a public funding preference should be given to not-for-profit companies, e.g. public companies or energy cooperatives at local, regional or national levels, while preferential guarantees and loans should be provided widely through the EIB. The next EU financial framework should provide greater support for trans-European energy grids (Raza et al. 2026). The shift to renewable energy sources will not only lower energy prices, but also provide the basis for the sustainable transformation of energy-intensive industries (such as steel, cement or chemicals).

5. Conclusion

In this paper, we have scrutinized the recent debate on the need for promoting European competitiveness, as prominently diagnosed by the Draghi Report. By disaggregating the overall academic and policy-oriented debate on competitiveness into three distinct strands – market share-focused competitiveness, productivity-focused competitiveness, and beyond-GDP competitiveness – we then performed a descriptive statistical analysis of competitiveness indicators for both the European Union and the United States. Our assessment concludes that by and large the state of EU competitiveness does not appear as bleak as is insinuated by both the Draghi Report and the recent public discourse. Nevertheless, specific challenges, particularly with respect to innovation and energy, need to be addressed.

Notwithstanding its conceptual flaws and partially problematic policy proposals, the main problem with the Draghi Report is in our view its selective interpretation and one-sided implementation by European policymakers. Instead of a productivity-oriented competitiveness agenda, the prevailing focus on across-the-board deregulation, aiming at cost savings for companies, adheres to an outdated market share-focused view and will do little to increase economic productivity and foster innovation in the European economy. Instead, what is needed is a policy agenda focused on promoting domestic sources of productivity and innovation, without neglecting sustainability and beyond-GDP competitiveness. This will have to involve both supply-side and demand-side measures. On the supply side, structural reform steps towards leveraging the continental size of the European market must be combined with the upward convergence of social and environmental standards and a much more comprehensive industrial policy agenda (see e.g. Raza et al. 2025). On the demand side, massive public investment in the green and digital transformation will be indispensable (Heimberger/Lichtenberger 2023; Skyrman 2024). Not only will this necessitate the issuance of common European public debt and a substantial increase in the EU budget, but it must be implemented via a system of public development banks in the EU. Given rampant financialization, short-termism and the risk aversion of private financial markets, we disagree with the Draghi Report in that we believe a fully integrated European capital markets union will do little to meet investment needs, while potentially exacerbating systemic financial risks by e.g. reintroducing large-scale securitization (see also Bezemer/Sanders 2026).

Considering the long-time resistance of the corporate and, in particular, the financial sector to a more fundamental reform of the fiscal and financial framework, and the mounting opposition to the European Green Deal, the return of European politics to a competitiveness agenda may not be surprising. Paradoxically, the EU has returned to a market share-focused view of competitiveness that prioritizes regulatory cost-cutting. Yet the geopolitical shifts towards protectionist trade policies render such a strategy self-defeating. Prominent policymakers like Mario Draghi and Christine Lagarde have apparently understood this. The question is, if and when European politics will follow.

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