



“From European Strengths to EU Power”

Policy Note - Growth

European Momentum for a Bold Draghi & Growth Agenda

January 15-17, 2026 | Brussels, Belgium

A report informed by the discussions of the Third European Conclave and the broader debate on the future of Europe, endorsed by the Conclave Board members in their individual capacity.

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EUROPEAN MOMENTUM FOR A BOLD DRAGHI & GROWTH AGENDA

This policy brief is published under the responsibility of the Conclave Executive Board members in their individual capacity — a project initiated in 2023 to bring together 40-50 high level Europeans from politics, business, science, and civil society in annual meetings to discuss the long-term challenges for Europe, and fuel political, societal, and public debate. Early 2025, the Conclave called for "A Global, Sustainable, and Responsible Power Agenda for Europe." In the context of increasing geopolitical turbulence, this call resonated in the strategic discourse about the future of Europe. In its third edition 2026, Conclave focused on growth, democracy, and geopolitics — with digital capacity as a cross-cutting theme — under the overarching perspective: "From European Strengths to EU-Power", resulting in four policy briefs.

During the session on growth, moderated by Dr. Malte Zabel, Director of the Bertelsmann Foundation's Europe program, Nadia Calviño, President of the European Investment Bank, delivered the opening address. We explored three key issues:

- **How can public and private investment contribute to strengthening the EU?** – Moderated by Stjepan Orešković, founder of Bosqar Invest
- **How can the EU shape digital sovereignty in a rapidly changing world?** – Moderated by Maria João Rodrigues, President of Re-Imagine Europe
- **How to get talented minds moving to promote their development?** – Moderated by Jean-Pierre Bourguignon, former president of the European Research Council

Key recommendations include:

- **Remove barriers for dynamic business**
- **Single markets for services and digital**
- **Clear a path to a capital markets union**
- **Increase public investment**
- **Allocate defence resources as a catalyst for productivity and industrial renewal**

“Europe has reached impressive consensus on growth: everyone supports it, as long as it requires no disruption, no reallocation, and preferably no change.”

Executive Summary

Europe's growth slowdown is a structural challenge centred on productivity, as emphasised by the Draghi report. While Europe underperforms in capital deepening, innovation diffusion, and resource allocation relative to the United States, evidence suggests that productivity per hour worked is broadly comparable to the United States; the key weakness lies instead in firm dynamics, notably the shortage of young high-growth frontier firms and slow diffusion of innovation and the limits of scale in a market that remains fragmented.

These structural weaknesses are compounded by long-term demographic ageing and immediate pressures from higher energy prices, rapid advances in artificial intelligence, and a more fragmented global trading environment. Addressing these challenges requires a bold agenda focused on fostering firm entry and scale-ups, completing the Single Market (including but not only in Capital Markets), and significantly boosting investment.

In this context, the sharp increase in defence spending represents a once-in-a-generation opportunity: if directed towards European firms and aligned with innovation policy, procurement reform, and capital-market development, defence investment can strengthen domestic technological capabilities, generate productivity-enhancing spillovers, and support long-term growth while its primary purpose remains enhancing security.

This paper examines two chapters the key challenges and recent track record followed by five concrete policy recommendations and a conclusion.

I. Setting the Scene & Key Structural Challenges

Europe faces a period of accelerated structural change in which growth depends less on incremental improvements and more on the economy's capacity to reallocate resources rapidly.

The Productivity Gap

While Draghi's conceptual framework is widely accepted, parts of the empirical diagnosis merit closer scrutiny. Recent work by Zsolt Darvas challenges the view that Europe suffers from a fundamental productivity shortfall relative to the United States. Darvas (2023) shows that when productivity is measured as GDP per hour worked, many European economies perform similarly to, or even better than, the United States. The more pronounced divergence emerges when productivity is measured per capita, reflecting differences in hours worked, labour-force participation, and demographic structure rather than differences in efficiency. From this perspective, Europe's weaker per-capita performance partly reflects social choices and demographic trends rather than technological failure.

This distinction has important policy implications. If Europe's productivity trends per hour are broadly comparable to that of the United States, then the narrative of a generalised productivity collapse may be overstated. Instead, Europe's challenge may lie in new growth dynamics going rather than in the performance of the last decade.

Another argument is advanced by Paul Krugman in recent commentary. Krugman argues that much of the apparent US productivity advantage is driven by a small number of superstar technology firms. When these firms are excluded, productivity growth in the remainder of the US economy looks far less exceptional and broadly comparable to Europe's experience (Krugman 2025). This can also be discussed in distributional terms. Much of the growth benefits of the superstar firms accrue to a relatively small part of the US population — while large parts of the society have not seen significant income increases compared to European societies.

Together, these arguments suggest that Europe's problem is not uniformly low productivity across all firms, but rather the absence of a strong upper tail of highly productive, fast-growing frontier firms. Europe produces many competent firms but too few global leaders capable of driving transformational productivity gains. This reframing does not contradict Draghi's emphasis on structural reform, but it shifts the focus towards firm dynamics, scaling, and innovation diffusion.

An Ageing Labour Force

Demographic change represents a major structural constraint on Europe's growth prospects. Population ageing reduces labour-force growth and raises dependency ratios across most European economies. Even if productivity per hour were to remain stable, slower growth in total hours worked would mechanically reduce potential output growth. Ageing will further weigh on growth through the increasing demands on a relatively smaller working cohort. Ageing also affects entrepreneurship and innovation. Younger cohorts tend to be more mobile, more willing to take risks, and more likely to start new firms. A shrinking share of younger workers may therefore dampen firm entry and slow the process of creative reallocation. In this context, productivity growth becomes even more crucial as a driver of living standards.

Energy

Energy prices remain structurally higher than in many competing regions. The combination of geopolitical tensions, supply constraints, and the costs of decarbonisation has raised production costs for European firms, particularly in energy-intensive sectors. While the energy transition is necessary, it imposes short-term adjustment costs and accelerates structural change (Draghi 2024).

Artificial Intelligence (AI)

Rapid advances in artificial intelligence are reshaping business models across the economy. Falling costs of AI services lower barriers to entry in some sectors while increasing competitive pressure in others. Firms that fail to adopt new technologies risk rapid obsolescence, while successful adopters can scale quickly.

Business-Model Transformation

Global trade has become more fragmented and politicised. Strategic autonomy, supply-chain resilience, and security considerations increasingly shape economic policy. This environment rewards flexibility and adaptability but also raises uncertainty and adjustment costs.

II. EU's Recent Track Record

Europe's growth challenge has returned to the centre of the policy debate following the publication of the competitiveness report led by Mario Draghi. The report argues that Europe's weak growth performance is primarily structural rather than cyclical and that productivity is the central issue constraining long-term economic performance (Draghi 2024; European Commission 2024).

The analytical framework adopted by Draghi is standard but powerful. Productivity growth depends on three core pillars: capital deepening, technological progress, and the efficient allocation of resources and lacking scale in a fragmented market. Europe, according to the report, underperforms on all three dimensions.

Capital

Capital deepening has been insufficient. Investment rates in Europe have remained persistently lower than in the United States, particularly in intangible assets such as digital infrastructure, data, artificial intelligence, and advanced manufacturing. Public investment has been constrained by fiscal consolidation and rules-based frameworks, while private investment has been discouraged by regulatory fragmentation, uncertainty, and underdeveloped capital markets (Draghi 2024).

Technology

Technological progress has not translated effectively into productivity gains. While Europe produces high-quality research and maintains strong academic institutions, it struggles to convert innovation into commercially successful firms that can scale across borders. The report highlights Europe's shortage of high-growth "scale-ups" and its limited diffusion of frontier technologies across the wider economy (European Commission 2024).

Resources

Allocation of resources across firms and sectors remains inefficient. Barriers to entry, rigid product markets, fragmented regulation, and weak cross-border finance slow the reallocation of labour and capital from low-productivity firms to high-productivity ones. The fragmented market also prevents rapid scaling of companies at a time during which scale economies in AI and other digital services matter in particular. As a result, Europe's economy adjusts too slowly to technological change and global competition (Draghi 2024).

Structural Change and Creative Destruction

Draghi's call for structural reform appears well founded. However, the scale of current challenges suggests that Europe needs not only more investment, but also a stronger Schumpeterian dynamic of creative destruction. Growth in advanced economies is driven by the entry of new firms, the scaling of successful innovators, and the exit or transformation of less productive incumbents. Europe has historically been weaker on these margins than the United States. Rates of firm entry are lower, young firms grow slower, and too many firms remain small and nationally oriented.

Recent analysis by McKinsey shows that Europe suffers from both insufficient entry of innovative firms and weak diffusion of productivity gains across the economy. Compared with the United States, Europe struggles to translate innovation into scale and sustained productivity growth (McKinsey & Company 2024).

The current combination of energy transition, AI diffusion, and geopolitical fragmentation intensifies the need for creative destruction. Protecting existing business models may offer short-term stability but risks locking resources into declining activities. By contrast, policies that facilitate experimentation, entry, scaling, and exit can accelerate adaptation and long-term growth.

At the same time, creative destruction must be managed carefully. Structural change is disruptive and can generate social and political resistance. Complementary policies are therefore needed to support worker retraining, labour mobility, and access to finance, ensuring that adjustment costs are shared and politically sustainable.

III. Strategic Game Changers

Europe's growth problem cannot be solved through short-term demand stimulus alone. Instead, Draghi calls for a bold agenda centred on large-scale investment, deeper market integration, and stronger EU-level governance to support productivity growth over the long run.

→ **Barriers Down for Firm Dynamics**

First, Europe should place firm entry, entrepreneurship, and scale-ups at the centre of its growth strategy. This requires reducing regulatory barriers to entry, improving insolvency and bankruptcy frameworks, and supporting the diffusion of frontier technologies across firms and sectors.

→ **Single Market for Services and Digital**

Second, further progress on the EU Single Market remains essential, particularly in services and digital sectors. Fragmentation limits scale, reduces competition, and slows innovation diffusion. Stronger enforcement and harmonisation of single market rules are critical – with decentralised rule enforcement of directives causing harm.

→ **Free Way for a Capital Markets Union**

Third, a critical bottleneck lies in capital markets. European leaders should overcome national interests to create a genuine Capital Markets Union that would improve risk-sharing, channel savings towards high-growth firms, and support innovation at scale. Equity finance and venture capital are indispensable for a Schumpeterian growth model.

→ **Increase Public Investment**

Fourth, there is a clear need for a significant increase in public investment. Public investment complements private risk-taking, particularly in critical infrastructure, research, skills, and strategic technologies. Fiscal frameworks should better distinguish between current spending and growth-enhancing investment.

→ **Allocate Defence Resources as a Catalyst for Productivity and Industrial Renewal**

Finally, Europe faces a once-in-a-generation opportunity linked to the sharp increase in defence spending triggered by a more challenging geopolitical environment. While higher defence outlays are a fiscal burden and have the primary objective of providing the public good of defence, they can also be leveraged strategically to strengthen Europe's long-term growth potential.

Economic research shows that government spending can have persistent long-run effects on productivity and output when it is directed towards investment, innovation, and the expansion of technological capabilities. Antolín-Díaz and Surico (2025) demonstrate that public spending shocks can raise not only short-term demand but also long-run productive capacity, particularly when they support capital formation, research and development, and technological upgrading. Defence spending, by its nature, is closely linked to advanced technologies—like aerospace, semiconductors, cybersecurity, artificial intelligence, and advanced materials—making it especially well suited to generate spillovers into the civilian economy.

However, realising these benefits depends critically on how defence resources are allocated. At present, Europe relies heavily on imports from the United States for high-technology military equipment. Europe's dependence on U.S. foreign military sales has increased markedly in recent years, deepening both strategic and technological reliance on the U.S. defence industrial base (Mejino-López and Wolff 2025). This reliance risks limiting domestic spillovers, constraining the development of European firms, and weakening Europe's long-term technological sovereignty. Redirecting a larger share of high-tech defence procurement towards European firms would help build a genuine European defence industrial base. Such a strategy would stimulate domestic R&D, support firm entry and scaling in high-technology sectors, and strengthen linkages between defence innovation and civilian applications. Moreover, defence procurement reform—focusing on competition, cross-border cooperation, and scale—could reinforce the Capital Markets Union agenda by creating predictable demand for high-risk, high-technology investment.

If aligned with innovation policy, procurement reform, and deeper capital markets, increased defence spending can therefore serve not only security objectives but also broader goals of productivity growth, industrial renewal, and strategic autonomy.

IV. Conclusion

Europe's growth challenge is real but multifaceted. Draghi provides a compelling structural diagnosis centred on productivity, investment, and market integration. At the same time, evidence from Darvas and Krugman suggests that Europe's problem lies less in average inefficiency and more in weak dynamics at the technological frontier.

Ageing, energy transition, AI diffusion, and geopolitical uncertainty create an environment in which incremental reform will not suffice. Europe needs a bold agenda that

- embraces structural change
- fosters creative destruction
- ensures a more deeply integrated market and
- mobilises both public and private investment at scale.

The alternative is continued relative decline and a gradual erosion of economic and political influence.

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