Der Internationale Karlspreis zu Aachen
Für die Einheit Europas

# Speech by Prof. Dr Mario Draghi at the Charlemagne Prize ceremony in Aachen, Germany

*Aachen, 14 May 2026*

Dear Lord Mayor Dr. Ziemons,

Dear Chancellor Merz,

Dear Prime Minister Mitsotakis,

Dear Mr. Chairman Laschet,

Dear President Lagarde,

Distinguished Laureates of previous years,

Eminencies and Excellencies,

Dear Guests, Ladies and Gentlemen,

I will not pretend that what lies ahead for Europe is easy. The strain upon our continent is profound and growing heavier by the month.

But this is not only a moment of danger. It is also a moment of revelation.

For the forces now testing Europe are accomplishing something that decades of peace and prosperity could not: they are compelling Europeans to recognise, again, what they share in common, and what they are willing to build together.

That should give us confidence. It should also make us clear-eyed about the scale of the task before us.

Since 2020, one external shock has followed another, each compounding the last, each narrowing the room for hesitation. We are still absorbing tariffs from our largest trading partner at levels unseen in a century. Now war in the Middle East has returned inflation to our economies and anxiety to our households. Even when the Strait of Hormuz reopens, the fractures inflicted to supply chains could extend into months or years.

These shocks would be difficult in any circumstances. But they arrive just as Europe's investment needs have become immense. What was already estimated at around €800 billion a year in additional strategic spending has, with the defence commitments of recent years, risen to almost €1.2 trillion a year on average.

Growth is therefore the condition for everything Europe now says it must do: finance the energy transition, defend its continent, build the industries of the digital age, and sustain societies that are growing older.

And the world that once helped Europe generate prosperity is no longer there. It has become harsher, more fragmented and more mercantilist.

Across the Atlantic, we can no longer assume that the guardians of the postwar order remain committed to preserving it. Decisions with profound consequences for European economies are increasingly taken unilaterally, in disregard of the rules the United States once championed. And for

the first time since 1949, Europeans must face the possibility that the United States may no longer guarantee our security on the terms we once assumed.

Nor does China offer an alternative anchor. It is generating industrial surpluses on a scale the world cannot absorb without hollowing out our own productive base. And it is directly supporting our adversary, Russia.

In a world of changing partnerships, every strategic dependence must now be re-examined. For the first time in living memory, we are truly alone together. Europe is responding to this new reality. But it is responding within a system that was never designed for challenges of this magnitude.

The European project was built, deliberately and wisely, to prevent the concentration of power. After the catastrophes of the first half of the twentieth century, Europeans resolved that no member state would dominate the others.

Instead, they created a different model of governance, which was shared and diffused. Independent agencies, rule-bound processes and financial markets were enlisted to do work that, elsewhere, would have required open political choice. Where agreements between governments had to be found, European governance wrapped them in layers of process that stripped them of their political charge. Decisions that in another context would have been divisive came to appear administrative.

The achievements of that system were extraordinary. Peace on a continent once defined by war. The return of nations that had spent generations behind the Iron Curtain into a community of free peoples. The single market. The euro. The freedom to move across borders that for centuries had divided Europeans from one another.

For seventy years, this architecture carried Europe forward. It allowed us to achieve something historically rare: integration without subordination. But it rested on two fundamental assumptions.

The first was that Europe had built a truly open economy in which the state did not need to direct growth: free trade internally through the single market, and free trade externally through a rules-based international order.

The second was that Europe would never again need to confront the hardest questions of power and security, because they would be answered for us.

Both assumptions have now proven hollow. And as they fall away, the political questions Europe sought to soften are returning to the heart of the European project.

Nowhere is this more visible than in the contradictions of Europe's own economic model.

Externally, we dismantled barriers to trade, welcomed global supply chains and built the most open major economy on earth. But internally, we never fully practised the openness we preached: we left the single market unfinished, capital markets fragmented, energy systems insufficiently connected, and large parts of our economy encased in layers of regulation.

There is an irony to all this. Europe relied on markets to do work that common political authority was not empowered to perform. But we denied those markets the continental scale they needed to succeed. The result was not a true market economy, but an asymmetric one. And from this asymmetry flow many of the vulnerabilities now confronting Europe.

The first vulnerability is our exposure to external demand. European companies were drawn outward in search of the growth Europe itself could not provide. Since 1999, trade as a share of GDP has risen

from 31% to 55% in the euro area. In the United States and China, by contrast, it has barely moved. Both remain far less exposed to trade.

Our sensitivity to shifts in American and Chinese policy is therefore not simply a misfortune imposed from abroad. It is the reflection of our own failure to build a sufficiently deep domestic market.

The second vulnerability is our growing strategic dependence. No advanced economy can eliminate it entirely. The United States has exposures of its own, including in critical minerals. But Europe's position is of a different order.

Had we taken the steps to integrate our economy, capital markets would have channelled more of Europe's savings toward productive risk at home. Energy would move more freely across borders, supported by grids, interconnectors and storage. Decarbonisation would be closer within reach, and our economies less sensitive to fossil fuel shocks: since the Iran conflict began, citizens of countries with higher shares of clean energy have paid, on average, around half the wholesale electricity prices of those with lower shares.

But Europe chose a more defensive path. We tried to hold disruption at bay. We limited consolidation, constrained risk and postponed cross-border investments. But the result was not greater control. It was dependence.

Today, half the capital invested through European funds flows back into the United States, where both risks and returns are greater. We rely on America for 60% of our LNG imports. Even in clean tech, Europe cannot yet deploy its green transition at scale without increasing dependence on Chinese supply chains.

The third weakness — and perhaps the most important — is Europe's deteriorating position in the technologies that will define the next decade.

Since 2019, Europe's hourly productivity gap with the United States has widened by 9 percentage points, on a purchasing power parity basis and in constant prices. This does not, by itself, measure differences in living standards. But it does point to a growing divergence in productive capacity, reflecting not only America's larger technology sector, but the deeper digitalisation of American firms and workflows.

Artificial intelligence now arrives on top of that divide.

OECD scenarios suggest that roughly half of productivity growth over the coming decade could derive from AI and its diffusion across the economy. At no point in recent memory has so much of our economic future depended upon a single technological transformation.

But AI is not merely another digital tool to adopt. It requires an industrial mobilisation on a scale not seen for generations: vast investment in energy, semiconductors, computing infrastructure and capital. And here Europe is falling behind.

The United States is on track to spend roughly five times more than Europe on data centre construction by 2030. China is mobilising at a similar scale. Were Europe to match that ambition, power demand could rise by 20–30% compared with today.

Europe possesses the savings, the talent and the latent energy potential to compete in this transformation. But the same barriers and constraints that produced our exposure and dependencies now prevent us from mobilising at the scale the moment demands.

This is not a gap we can afford to let widen. Unlike electricity or the internet, AI improves through use. Every round of deployment generates the data and capabilities that make the next round more powerful still. The economies that assemble these advantages first will pull permanently ahead.

All three consequences point back to the same source. Europe opened itself to the world without completing the market within. It became too reliant on demand from abroad, too dependent on capacities controlled elsewhere, and too fragmented to mobilise its own scale.

The question now is how to correct that imbalance. Across Europe, different answers are emerging.

For some, the answer is not to change: as others retreat from openness, Europe should seize the opportunities they leave behind, expand trade with the rest of the world, and become the foremost defender of the rules-based system.

Europe can still gain from further trade liberalisation. But we should be honest about its limits. According to one estimate, even if Europe successfully concluded all current trade negotiations, the long-run boost to our GDP would amount to less than 0.5%.

The deeper problem is political. New trade deals are easier to agree than confronting the unfinished work at home, because that work forces choices Europe has long preferred to avoid: to confront the established rent positions and the vested interests that gain from an incomplete single market and fragmented energy markets. If openness remains our only answer, it becomes the absence of a decision.

For others, the answer is to reintroduce a strategic state into markets. Across Europe, there is a renewed appetite for industrial policy — to direct capital toward technologies we failed to build, to shelter strategic sectors from external pressures, and to use tariffs and state support to protect at home the growth we are losing abroad.

These views are understandable. In many respects, they are necessary. Every major economy in the world is now deploying industrial policy at a scale that makes a mockery of the idea of a global level playing field. Europe must navigate increasingly complex dependencies on both the United States and China. We cannot afford ideological rigidity.

But these instruments will not deliver what their advocates hope unless Europe also resolves the inconsistency at the heart of its own economic model.

Consider what happens if Europe adopts a more assertive trade posture. Retaliation invites counter-retaliation — costs that Europe, in its current form, is poorly positioned to absorb. We are already witnessing the effects of American tariffs: since Liberation Day, European exports to the United States have fallen by around 17%.

Yet when we look across the Atlantic, we see an economy that that is able to preserve its growth from the disruptions it helps create. Despite rising trade tensions, inflation and conflict in the Middle East, the IMF has revised upward its growth forecast for the United States next year, while revising Europe's downward.

The lesson is that external toughness requires internal depth. Within Europe, member states differ significantly in the depth of their integration. ECB research suggests that if all moved closer to the level already achieved by the best performers, the long-term welfare gains could exceed 3% — roughly four times the projected growth impact of higher American tariffs.

"Made in Europe" should also be seen in this light: as a way of using European demand more deliberately. It should give industries with long investment horizons — semiconductors, clean tech,

defence — a market large and stable enough to invest here. Without demand of its own, Europe cannot sustain a credible posture abroad.

Industrial policy faces a different version of the same problem.

If Europe's member states attempt large-scale industrial policy within the current structure of the single market, they will fail. They will spend wastefully, fragment investment along national lines and impose costs on one another. IMF research finds that subsidies granted in one member state suppress growth in others, with negative spillovers eroding the original gains within just two years.

The ideal answer would be to coordinate state aid at European level. But that is not the only way to reduce these distortions. A truly integrated European economy would itself change the field on which industrial policy operates.

Even if state aid were still granted within national borders, its beneficiaries would increasingly be firms that had already been tested across Europe. The leading companies in each jurisdiction would be less likely to be protected national incumbents, and more likely to be European-scale firms competing where capital, energy, skills and supply chains are strongest.

Unlike the failures of the 1970s, this is how true European champions are most likely to emerge: exposed to continental competition, and supported by a policy strategy at European level.

That would in turn give governments clearer signals about where Europe's real competitive strengths lie. Public money would be less likely to sustain firms with no prospect of scaling, and more likely to reinforce capacities Europe genuinely needs. Intervention could become narrower, cheaper and more effective.

The more Europe reforms, the less it must rely on debt — national or common — to compensate for its fragmentation.

That is why the single market and industrial policy should not be treated as rival philosophies. Properly designed, each strengthens the other.

But the deeper Europe moves into industrial policy and strategic technologies, the harder it becomes to avoid the central external fact of our age: our relationship with the United States has changed.

Europe cannot reshore every critical technology by itself. The cost would be prohibitive. We will need preferential arrangements with trusted partners: offtake guarantees, common standards, shared investment and secure supply chains. The United States will remain central to that effort. The EU-US Memorandum of Understanding on critical minerals is an early example.

Yet the partner on whom we still rely has become more adversarial and unpredictable. Europe has sought negotiation and compromise. It has mostly not worked. Each time we absorb a shock without response, we lower the cost of the next one. A posture intended to de-escalate is inviting further escalation instead.

For now, Europe needs the ability to respond more assertively to put the partnership back on more equal terms. What holds us back is security. An alliance in which Europe depends on the United States for its defence is one in which security dependence can spill into every other negotiation — trade, technology, energy.

That is why the changing American stance on European security should not be seen only as a danger. It is also a necessary awakening. If the United States is asking Europe to take greater responsibility for the defence of our continent and our neighbours, then Europe must also gain greater autonomy in

how that defence is organised — and with that autonomy will come greater strength in its trade and energy relationships.

This need not weaken the transatlantic relationship or NATO. On the contrary, it would place both on firmer ground. A Europe that can defend itself may even be a more valuable ally. And a partnership built on mutual strength will always be more mature than one built on asymmetric dependence.

For Europe itself, the opportunity is substantial. Taking greater responsibility for our defence also means rebuilding the industrial and technological base on which that defence depends. European defence R&D is just a tenth of American levels. European governments spend €40 to €70 billion a year on American weapons, and our failure to consolidate demand wastes a further €60 billion in lost economies of scale.

But important changes are already underway.

Europe has made its most consequential strategic choice in decades: to invest in its defence. By the end of this decade, Germany alone will spend roughly what Russia now spends on its fully mobilised war economy.

And Ukraine is driving a form of practical defence integration that Europe long struggled to achieve by design. Countries are ordering the same equipment because they cannot afford to wait for bespoke national variants. European firms are producing Ukrainian-designed systems on allied territory.

Defence cooperation is spreading rapidly: a recent mapping exercise identified more than 160 bilateral and plurilateral defence arrangements between European states, the United Kingdom and Ukraine — most of them signed since Russia's invasion. Six partnerships carry a mutual defence clause.

The task now is to turn this patchwork into clear and binding commitments. If a member state is attacked, Europe's response should be unambiguous even before the crisis begins.

There are two routes to giving that commitment substance, and they need not be mutually exclusive.

One is through smaller coalitions of countries whose capabilities and threat perceptions already draw them together. In practice, much of Europe's military response is already being carried by a core group — Germany, Poland, France and the United Kingdom, alongside the Nordic and Baltic states which are closest to the threat.

Not every country must contribute in the same way. Ukraine has shown that modern defence no longer begins and ends with tanks, aircraft and artillery. It also depends on batteries, sensors, software and the ability to adapt civilian technologies at speed. Some countries will provide forces; others will provide drone components, cyber capabilities or logistics; others still will help financially.

The other route is to give operational substance to Article 42(7), the EU's mutual defence clause, which, although legally defined and once invoked, has not yet been translated into concrete plans, capabilities and command structures.

Who joins this common effort will matter profoundly. Every political community is ultimately shaped by its understanding of mutual obligation — by what its members believe they owe one another when the worst happens. For seventy years, this was a question Europe could leave partly unanswered. Now we must answer it ourselves.

The first signs are already visible. When Russia invaded Ukraine, Europe chose to stand behind a nation fighting for its freedom, and sustained that commitment year after year. When Greenland was

threatened, Europe stood up to its closest ally and, in doing so, discovered capacities it did not know it had. Even parties that built their identity on national sovereignty now recognise that no European nation can defend it alone.

But the pressure for change is now coming from every direction. Europe is being forced to take decisions it so far avoided. And for the first time in many years, the conditions for making those choices are beginning to exist.

There is a unity of diagnosis that is genuinely new. The nature of Europe's predicament is now widely understood across governments and citizens. The roadmap for action exists and, in some areas, the European Commission is already taking action.

Under the pressure of these years, Europeans are being reminded of values they had begun to take for granted: solidarity, democracy, the rule of law, the protection of minorities. These are the inheritance of postwar Europe. And they are becoming visible again because they are being tested.

That recognition is more powerful than any policy programme, because it gives Europeans a reason to act. And citizens are already clear about the direction Europe must take: nine in ten surveyed by Eurobarometer want the Union to act with greater unity; three quarters want it to have more resources to meet the challenges ahead.

But when citizens ask for more Europe, they are not simply asking for more of the Europe we have. Nor are they asking for an abstract institutional blueprint. They are asking for practical improvements in how Europe protects and empowers them, in ways they can see working and hold to account. The question is how to turn this demand for action into forms of decision-making capable of delivering it.

Our current experience is that action at the level of twenty-seven often cannot deliver what this moment requires. The problem is not a lack of ambition among leaders. It is what happens after ambition enters the machinery. Agreements are processed through committees that dilute and delay until the outcome bears little resemblance to what was intended.

The result is action that can fall so far short of the scale of the challenge that it becomes worse than inaction. And an EU that claims responsibility but repeatedly underdelivers enters a cycle it cannot escape: weak delivery erodes legitimacy, and weak legitimacy makes delivery harder still.

We must break that cycle.

Those countries that feel the weight of this moment most acutely — and understand that the window for action will not remain open indefinitely — must be free to move ahead. This is what I have called pragmatic federalism.

Its virtue is that it can rebuild delivery and democratic legitimacy together. Countries with the will to act should deepen cooperation in concrete areas, through instruments that produce results citizens can see and measure. And each should enter through a deliberate national choice, endorsed by its electorate, so citizens know what their government has committed to and can hold it to account.

Delivery builds legitimacy. Legitimacy makes deeper cooperation possible. And as the habit of acting together grows, so does the sense of common purpose.

This approach will necessarily be experimental. Some initiatives will work; others will not. That is why it is pragmatic. But it is also federalism, because the experiments are not random. They are guided by a shared destination: the conviction that Europeans must learn to exercise power together if they are to preserve their values.

The euro shows how this can happen. Those who were willing moved ahead. They built common institutions with real authority. When the commitment was tested almost to breaking point, the solidarity required turned out to be far greater than many had imagined. The framework held, countries continued to join and support for the euro now stands at a record high. For the societies that share it, leaving has become almost unthinkable.

That is what makes European commitments durable. Not words written once in a treaty, but the experience of acting together, being tested together and discovering through success that solidarity can work.

Our task now is to create that same dynamic again in energy, technology and defence,. Europe's leaders know where the work lies. They must now decide whether they are willing to put substance before process, and to choose the instruments that can deliver.

We have reached a point where the decisions Europe must take can no longer be contained within the institutional framework we have inherited. Some require a scale that only Europe can provide. Others require a degree of democratic legitimacy that must be built from the ground up.

Together, they require Europe's leaders to go one step further.

Across our continent, Europeans are showing that they want Europe to act. They want the European Union to defend their freedom, prosperity and solidarity. And they continue to uphold, with passion, the values that make Europe worth building and, today, make it unique.

The task now is to answer that trust with courage and to show that Europe can again turn crisis into union.