Flash Economics

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Everything is different between the United States and the eurozone.

The first difference stems from productivity gains, which are high in the United States but negative in the eurozone. The result in recent times has been low wage inflation in the United States and high inflation in the eurozone, especially as wage increases in the United States are held back by the growth in the working-age population and immigration, while in the eurozone they are stimulated by the decline in the working-age population.

The gap between productivity gains in the United States and the eurozone stems from the gap between investment in new technologies and levels of R&D spending. This leads to a significant gap between the potential growth rates of the US and the eurozone, a gap that is amplified by the gap between the growth rates of the working-age population.

Finally, there is also a significant gap between trends in profitability and margin rates. They are rising sharply in the United States, while they are stagnating in the eurozone, due to the low rate of increase in unit labour costs in the United States (because real wages have risen less than labour productivity).

All in all, the United States has structurally lower inflation, stronger growth and higher corporate profitability than the eurozone, but as a result of income distribution that is less favourable to wage earners, the United States also has a much higher level of inequality and poverty than the eurozone.

Patrick Artus

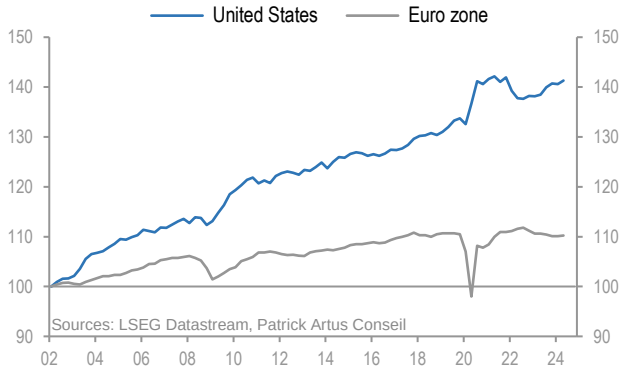
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Gap between productivity gains

The first major difference between the United States and the eurozone stems from **high productivity gains** (**Chart 1**) in the United States, while they have been negative in the eurozone since 2018.

Chart 1
Productivity per capita (100: 2002.Q1)



The difference in productivity gains is mainly due to the fact **that the United States has a much higher rate of investment in new technologies (Chart 2) and a higher level in R&D spending (Chart 3) than the eurozone.**

Chart 2
Investment in information and communication technologies excluding software (in value terms, as % of nominal GDP)

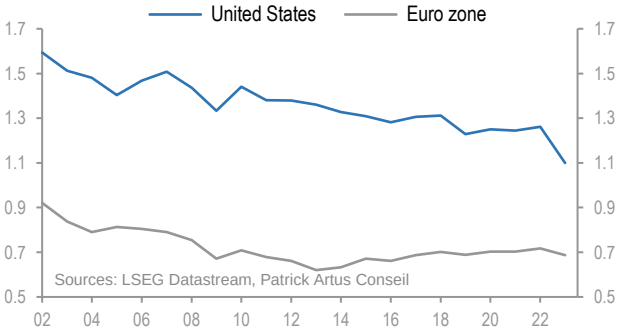
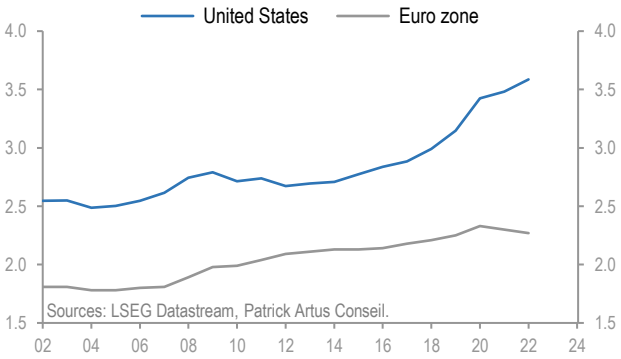


Chart 3
Total R&D spending (as % of nominal GDP)



Since 2017, higher wage inflation in the eurozone than in the United States

The rapid rise in labour productivity in the United States, which has stagnated and then fallen in the eurozone, means that unit labour costs have risen **faster in the eurozone than in the United States since 2008 and again since the start of 2022** (**Charts 4A/B**).

Chart 4A
Unit labour costs (Y/Y as %)

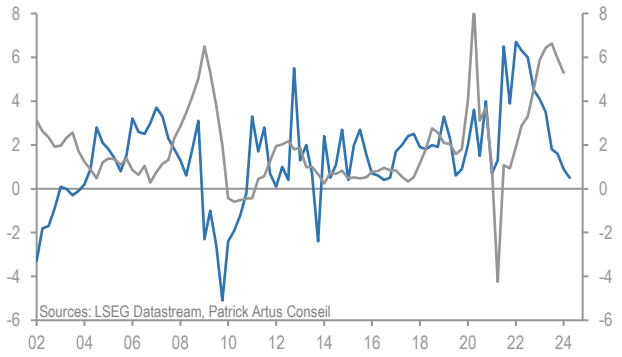
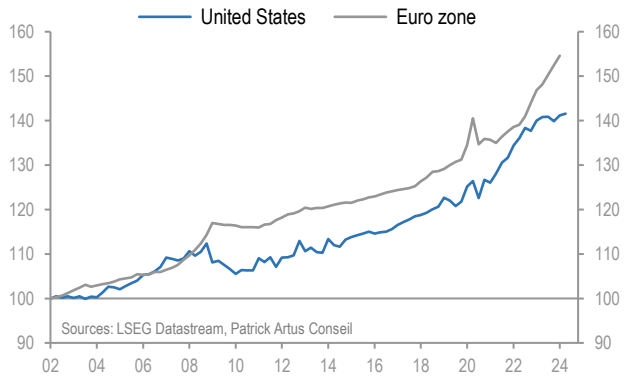
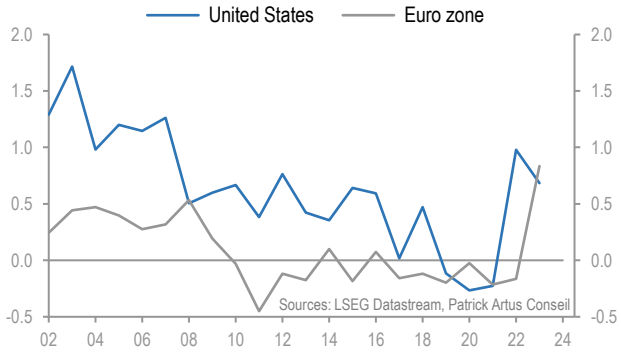


Chart 4B
Unit labour cost (2002.T1 = 100)



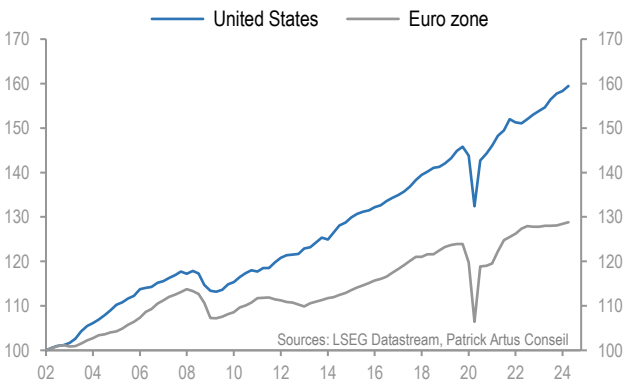
This faster rise in unit labour costs in the eurozone, since 2008 and again since 2022, is amplified by the fact that **the working-age population is growing faster in the United States than in the eurozone (Chart 5)**, a phenomenon that will be exacerbated in 2023 by the very high level of immigration in the United States (3 million people in net terms).

Chart 5
Population aged 15 to 64
(as % per year)



All in all, the gap between productivity gains and **the gap between the growth rates of the working-age population means that potential growth in the United States is much stronger than in the eurozone (Chart 6).**

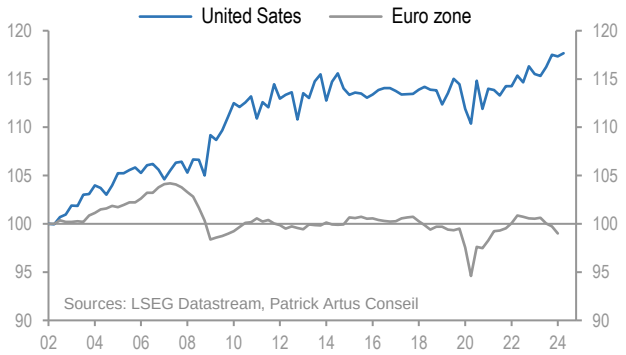
Chart 6
Real GDP (2002.T1 = 100)



Higher profitability in the United States than in the eurozone.

Chart 7 shows changes in profit margins (the ratio between the price of GDP and unit labour costs) in the United States and the eurozone.

Chart 7
Ratio between GDP deflator and unit labour cost
(100: 2002.Q1)



This difference between profitability trends in the United States and the eurozone is due to the difference in trends in unit labour costs, and more specifically to the fact that real wages have risen much more slowly than labour productivity in the United States, and at about the same rate in the eurozone (Charts 8A/B).

Chart 8A
United States : Real compensation per hour and productivity per person (100: 2002.Q1)

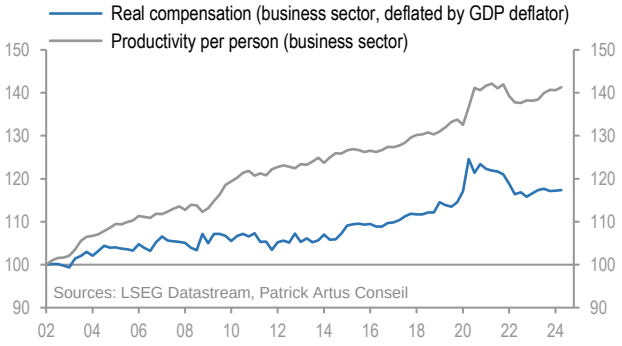
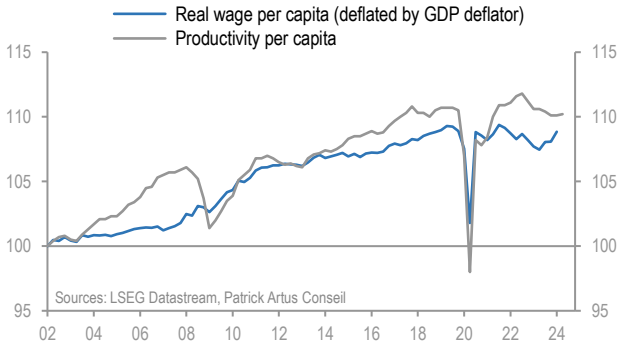


Chart 8B
Euro zone : Real wage and productivity per capita
(100: 2002.T1)



Summary: the two key differences between the United States and the eurozone, productivity gains and income distribution.

A comparison of the United States and the eurozone reveals two key differences:

- much higher productivity gains in the United States than in the eurozone;
- an income distribution that is much more unfavourable to employees in the United States than in the eurozone.

These differences are the result of higher investment in new technologies and R&D in the United States than in the eurozone, weaker bargaining power for employees in the United States than in the eurozone, and higher growth in the working-age population in the United States than in the eurozone.

As a result, **potential growth (Graph 6) and the capacity to invest (Chart 9) are higher in the United States than in the eurozone,** but, also because of the distortion of income distribution to the detriment of wage earners, **levels of income inequality and poverty are also higher in the United States than in the eurozone (Graphs 10/11).**

Chart 9
Investment of non-financial corporations (in value terms, as % of nominal GDP)

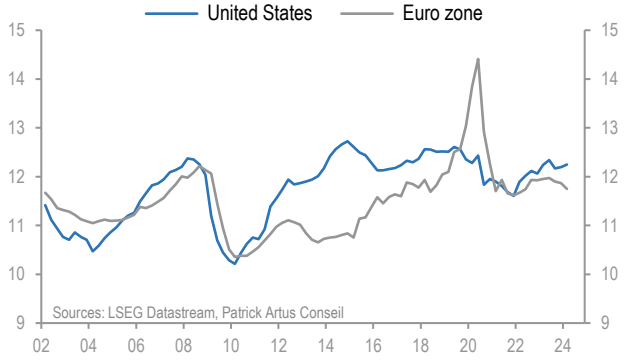


Chart 10
Gini index of income inequalities (after redistribution)

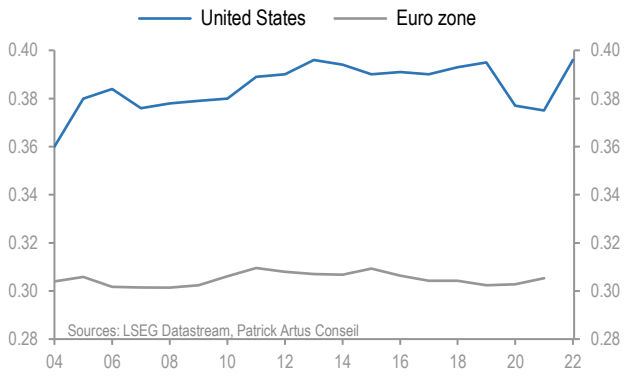
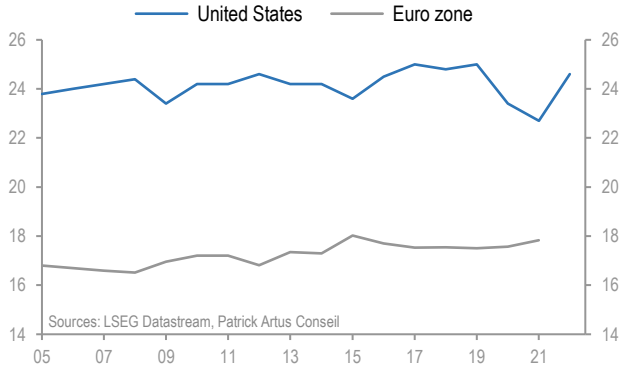


Chart 11
Poverty rate*



(*) Poverty rate based on disposable income, 60% of the national median disposable income

The question then is: if the United States had the same income distribution as the eurozone, which is more favourable to employees, would it retain its advantage in terms of productivity gains, or would this advantage disappear as a result of the decline in profitability and the ability and incentive to invest?

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