Flash Economics

N° 19
February 25, 2025

Europeans reject economic policies that would allow Europe to catch up with the United States

What policies should be put in place in Europe if it is to catch up with the United States?

- A policy favouring investment rather than consumption, which includes accepting a distribution of income more in favour of companies and a use of household income more focused on risky, long-term savings;
- Shifting public spending from social protection to public investment, particularly in technology;
- Transforming employment protection into protection for individuals and qualifications;
- Cooperation between European countries in the production of military equipment, electric batteries, semi-conductors, quantum computers, etc..

Unfortunately, the majority of Europeans are calling for higher incomes to enable them to consume more, rejecting cuts in public spending on social protection and job protection, and favouring competition over cooperation on industrial policies.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Europe lagging behind the United States

When we compare trends in real GDP and labour productivity, we can clearly see that Europe (we are in fact looking at the eurozone) is lagging behind the United States **(Charts 1A/B)**.

Chart 1A
Real GDP (2002.Q1 = 100)

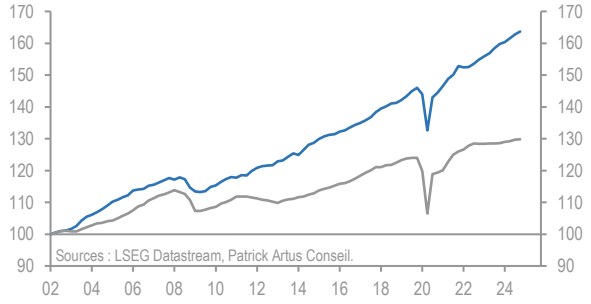
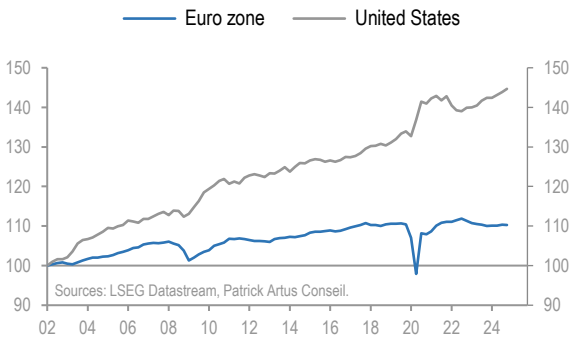


Chart 1B
Productivity per head (1999.Q1 = 100)

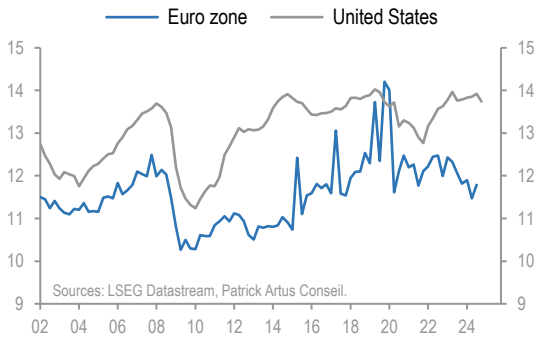


Our aim here is to show that Europe's lag behind the United States is the result of **Europeans' refusal to adopt policies that would correct this lag**.

Europeans' preference for consumption

A large part of Europe's lag with the US is due to **the weakness of the rate of investment by European companies (Chart 2)**.

Chart 2
Investment of corporations
(in value terms, as % of nominal GDP)



To improve the rate of investment by European companies, Europeans would have to:

- **Either accept an income distribution that is more unfavourable to employees (Charts 3A/B)**;

Chart 3A
United States : Real compensation per hour and productivity per hour (business sector, 2002.Q1 = 100)

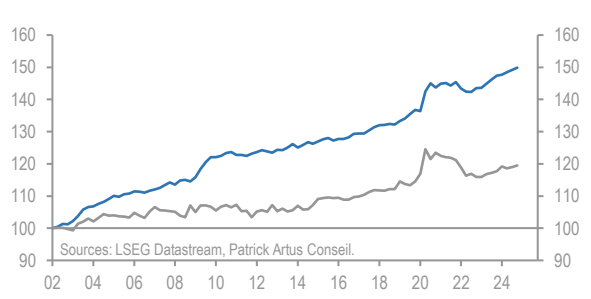
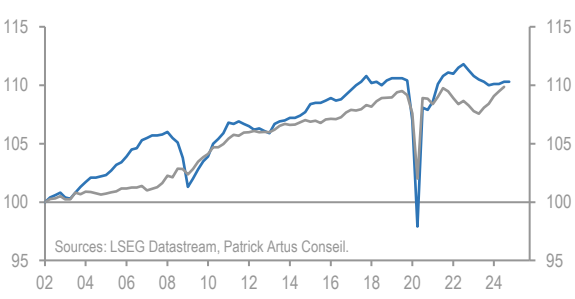


Chart 3B
Euro zone: Real compensation and productivity per head
(2002.Q1 = 100)



* Deflated by GDP deflator

- **Or agree to use their income more to save for the long term or to save in risky forms.**
  For example, if we compare the funds raised in venture capital, we can see that, depending on the year, in recent years they have reached 250 to 300 billion dollars a year in the United States, and only 20 to 25 billion euros in Europe. If we compare **stock market capitalisation**, we see that it is much higher in the United States than in the eurozone (**Charts 4A/B**).

Chart 4A
Market capitalisation (USD bn)

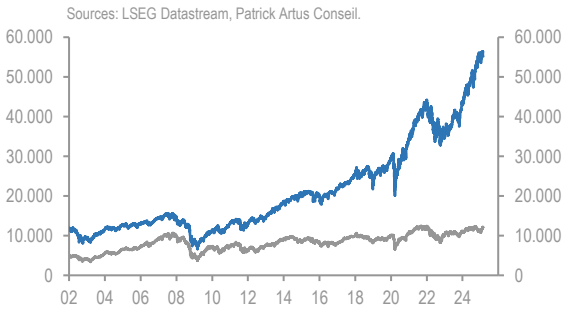
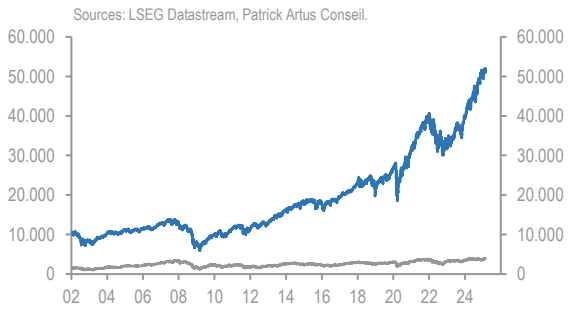


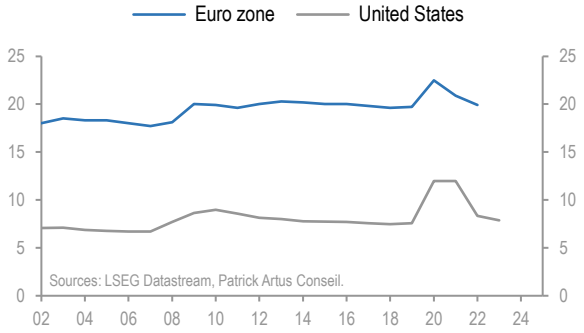
Chart 4B
Market capitalisation (USD bn)



Europeans' preference for social protection

A comparison of **social protection spending** (public spending on healthcare, old age, disability, family, unemployment and housing) shows that the public social protection system **in Europe is much more generous than in the United States (Chart 5).**

Chart 5
Public expenditure on social protection
(as % of nominal GDP)



The money that the European states spend on social protection, the United States spends on technological investment (for example, public spending on space reaches 73 billion dollars in the United States and only 13 billion euros in the European Union; R&D spending reaches 140 billion dollars in the United States and only 10 billion euros in the EU (figures taken from the Draghi Report).

Europeans prefer job protection

Spending on employment protection is significantly higher in Europe than in the United States. Only some European countries (such as Denmark) have opted for strong protection of employees and their skills, but not for strong employment protection (**Table 1**).

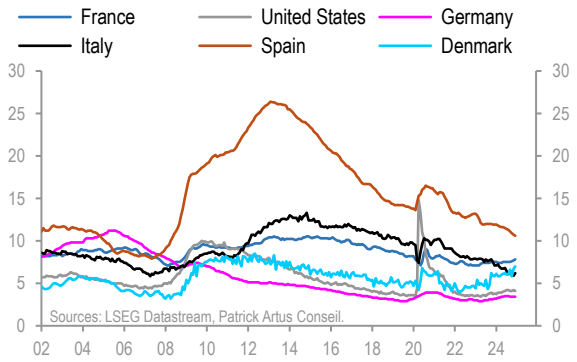
Table 1: Strictness of employment protection* (2019)

Strictness of employment protection	France	Germany	Spain	Italy	Danemark	United States
Individual and collective dismissals (regular contracts)	2.68	2.33	2.43	2.86	1.94	1.31
Collective dismissals	3.25	2.61	2.43	3.19	2.18	1.33
Individual dismissals (regular contracts)	2.45	2.22	2.43	2.72	1.84	1.30
Temporary contracts	2.58	1.67	2.47	2.82	1.60	0.27

Sources: OECD
(*) Scale from 0 to 6, with values increasing with the degree of stringency of regulation

High employment protection makes the labour market more rigid: it reduces the mobility of employees and keeps them in inefficient companies.
Moreover, European countries with low employment protection (Denmark) have combined low employment protection with high employee protection: training, back-to-work assistance, etc...
In these countries, the unemployment rate is on average very low (**Chart 6**) thanks to employee protection.

Chart 6
Unemployment rate (as %)



Lack of coordination of industrial policies

Industrial policies in European countries are poorly coordinated.
This is evident in the production of military equipment, electric batteries, semi-conductors, quantum computers, etc..
In most cases, countries are competing to attract foreign investment or develop local companies in these fields, when the development of European companies would be preferable.

Summary: Unfortunately, Europeans reject the economic policies that would be most effective

The majority of Europeans:

- Give priority to supporting household purchasing power and consumption, which makes it difficult to implement income-sharing policies that are more favourable to businesses or policies to stimulate long-term and risky savings;
- Reject the transfer of social protection expenditure to public investment expenditure, particularly in the area of technological investment;
- Reject the transformation of employment protection into protection of employees and their skills;
- Favour competition between states to attract foreign investment or develop national companies and reject cooperation and coordination of industrial projects.

This leads to the rejection of economic policies that could help Europe catch up with the United States.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.