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The dynamism of the American economy is rooted in an income distribution that is unfavourable to employees; how can Europe avoid using the same strategy?

The employment rate is as low in the United States as it is in the euro zone; the dynamism of the US economy does thus not stem from a high employment rate, but rather a skew in income distribution away from wages. The result is high corporate profitability and a strong capacity for companies to invest and grow.

But European countries are refusing to implement an income distribution that is unfavourable to employees. To avoid this stance resulting in a shortfall in investment, low corporate profitability and a shift of savings from Europe to the United States, it is essential to bolster the employment rate in Europe, which will lead to additional production, a reduction in the tax burden and a greater capacity to invest.

While an income distribution unfavourable to employees cannot be the economic policy strategy for Europe, it is absolutely necessary to push up the employment rate.

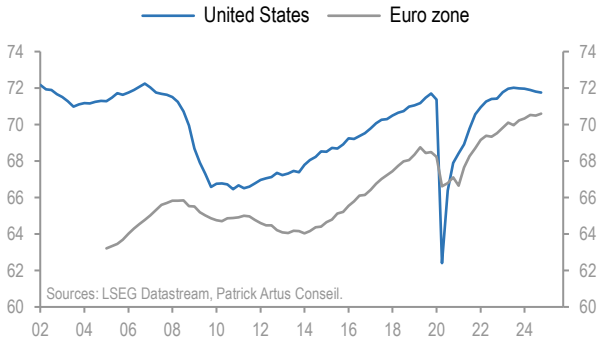
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Where does the dynamism of the US economy come from?

The dynamism of the US economy does not come from a high level of the employment rate, since the employment rate is similar in the US and in the euro zone (**Chart 1**).

Chart 1
Employment rate of population aged 15 to 64 (as %)



It is due to **the distortion of the income distribution to the detriment of wages** (**Chart 2a**), while the share of wages in national income is more or less stable in the euro zone (**Chart 2b**).

Chart 2A
United States : Real compensation per hour and productivity per hour (business sector, 2002.Q1 = 100)

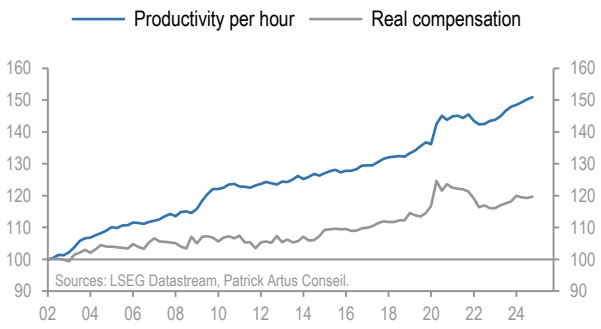
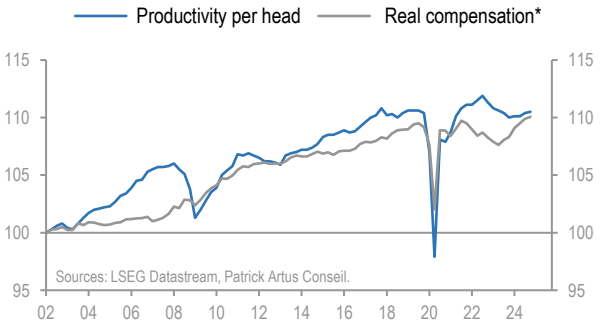


Chart 2B
Euro zone: Real compensation and productivity per head (2002.Q1 = 100)



* Deflated by GDP deflator

In the United States, this distortion of the income distribution, which is unfavourable to employees, has a number of consequences:

- **High corporate profitability** (**Chart 3**), and a greater capacity to invest in the United States than in the euro zone (**Chart 4**) ;

Chart 3
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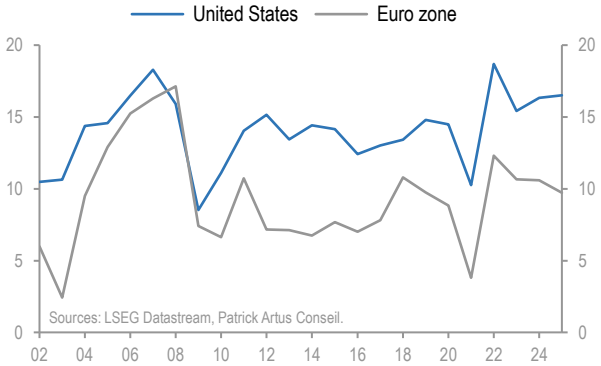
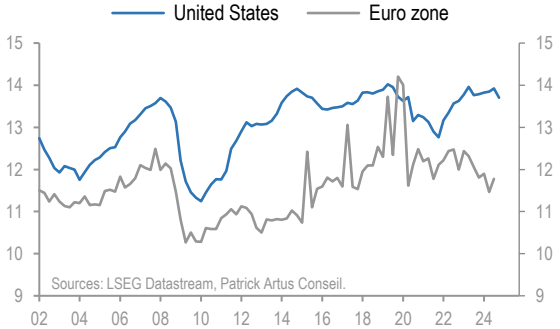


Chart 4
Investment of corporations (in value terms, as % of nominal GDP)



- **The capacity of the United States to foster very large companies**. If we look at the top 10 market capitalisations in the world, we can see that the largest are those of:
    - Microsoft;
    - Apple;
    - Nvidia;
    - Saudi Aramco;
    - Amazon;
    - Google (Alphabet);
    - Tesla;
    - Facebook (Meta);
    - Berkshire Hathaway;
    - Visa;

i.e. nine US companies among the world's 10 largest capitalisations.

Which strategy for Europe?

European countries are reluctant to implement a policy of distorting income distribution to the detriment of employees, in order to avoid the harmful effects of such a policy **on income inequality** (**Chart 5**) **and poverty** (**Chart 6**).

Chart 5
Gini index of income inequalities (after redistribution)

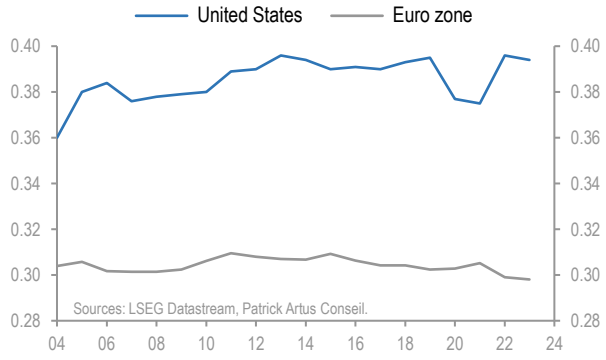
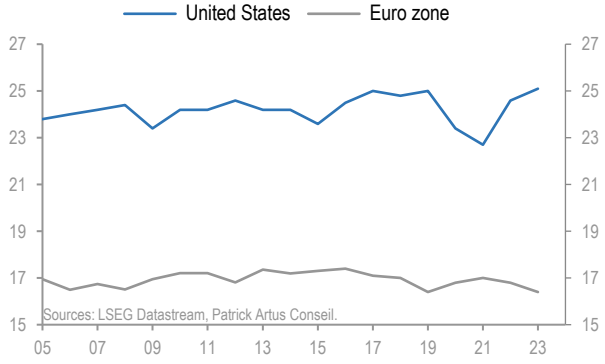


Chart 6
Poverty rate*



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

The risk, therefore, is that corporate profitability will be low (Chart 3, above), that the rate of investment will therefore be low (Chart 4, above), and that the **savings of Europeans will accordingly flow to the United States to be invested**, all of which we are seeing today.

If Europe's economic policy strategy cannot be a strategy of holding back real wages relative to labour productivity, **the only strategy left for Europe is a strategy of boosting the employment rate**.

We know that the low employment rate in the euro zone (on average for the euro zone countries, the employment rate being particularly low in France, Spain and Italy, **Chart 7**) is due to the low employment rate of young people and the low employment rate of people aged over 60 (**Charts 8A/B/C**).

Chart 7
Employment rate of population aged 15 to 64 (as %)

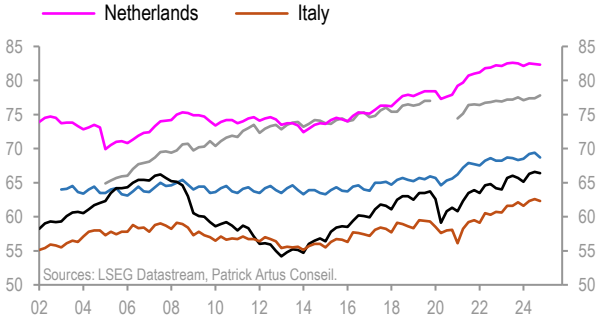


Chart 8A
Employment rate of population aged 15 to 24 (as %)

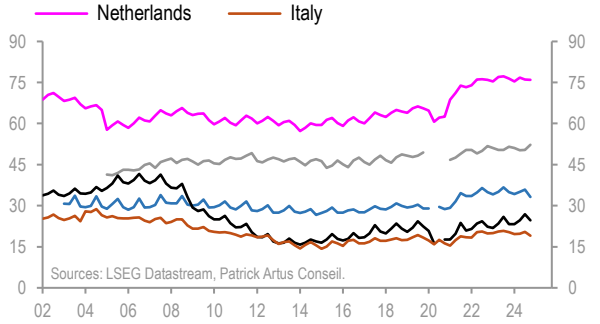


Chart 8B
Employment rate of population aged 25 to 59 (as %)

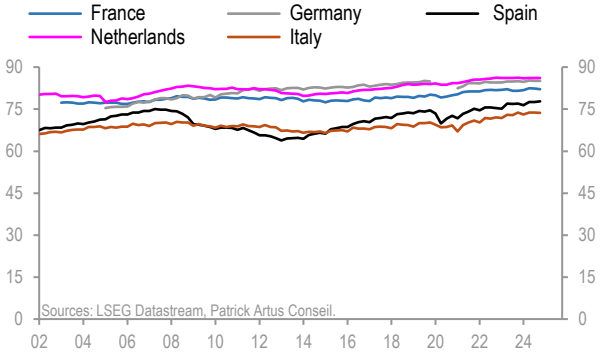
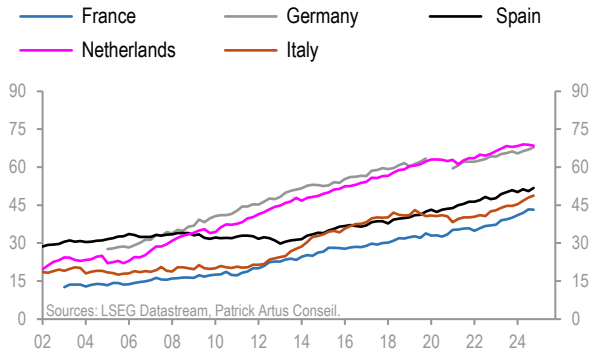


Chart 8C
Employment rate of population aged 60 to 64 (as %)



To correct the low employment rate in the euro zone, **it would therefore be necessary to improve the quality of the education system (Table 1)** and continue to raise the retirement age, while improving the employability of older people through training.

Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Canada	522	523	517	506
Finland	529	523	516	495
United Kingdom	502	500	503	494
United States	n.d	488	495	489
Sweden	482	496	503	487
Germany	515	508	500	482
France	500	496	494	478
Spain	490	491	482	477
Italy	490	485	477	477

Source : OCDE

If the employment rate in the euro zone as a whole were to rise to the level of Germany's (**Chart 7**), employment would increase by 11%, Gross Domestic Product by around 8% (taking into account the fact that the new jobs created would be less productive than overall employment), and tax revenues in the euro zone would increase by 4 points of GDP.

Tax pressure would come down (on the one hand given the rise in GDP, and on the other owing to the headroom provided by the increase in tax revenues), **Chart 9, and the ability of governments and businesses to invest would increase**.

Chart 9
Euro zone: Tax burden (as % of nominal GDP)



Summary: the only strategy available in Europe

The United States has chosen to implement a permanent shift in the distribution of income to the detriment of employees and in favour of companies. Even if the employment rate is fairly low in the United States, this strategy makes it possible to achieve a high level of profitability and investment by companies, attract savings from other countries to the United States, and develop very large companies.

But this strategy is rejected by the European countries. The only way they can have higher output, fiscal headroom and higher corporate profits to finance additional investment is if the employment rate rises in European countries.

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