Flash Economics

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Productivity gains to slow down in the United States

We see two essential causes for the future slowing down of productivity gains in the United States:

- The increasing concentration of individual and corporate wealth. When a small number of people own a large proportion of total wealth, or when superstar companies appear, the innovations that could have come to the fore and been financed if wealth had been more equitably distributed are not realized, and many potential entrepreneurs have to give up;
- The cutback in resources for the public research system and universities, and attacks on science, despite the fact that fundamental research is the source of breakthrough innovations and technical progress.

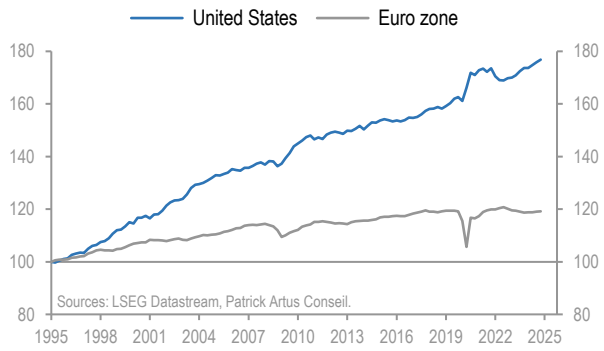
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High productivity gains in the United States until the end of 2024

Productivity gains in the United States have been significantly higher than in the euro zone since 1997 (**Chart 1**).

Chart 1
Productivity per head (1995.Q1 = 100)

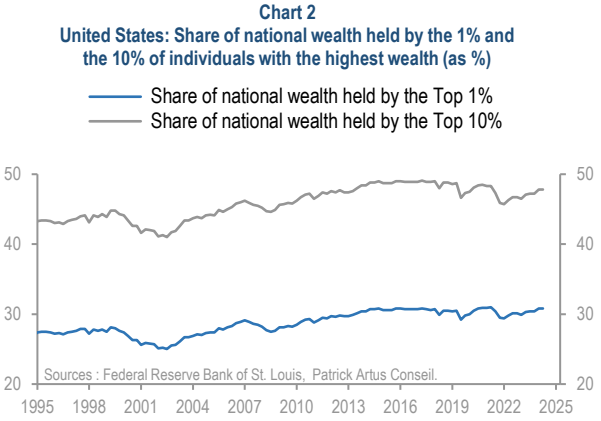


But **two developments could jeopardize the continued rapid pace of technical progress in the United States**: the concentration of wealth, and the policy targeting research institutions in the United States.

Increasing wealth concentration

Chart 2 shows **the rise in wealth inequality in the United States**, especially since 2010.

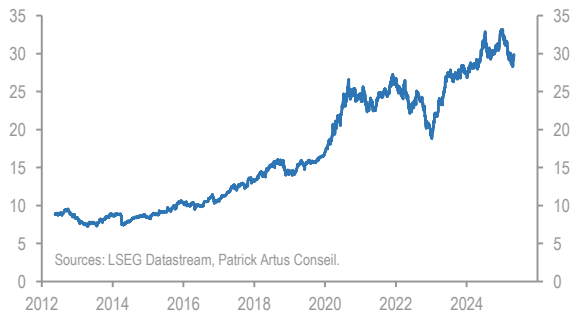
Chart 2
United States: Share of national wealth held by the 1% and the 10% of individuals with the highest wealth (as %)



We believe that **wealth concentration is unfavorable to productivity gains and innovation.**

If wealth is highly concentrated, as is the case in the U.S., both in terms of individual wealth (**Chart 2** above) and corporate value (**Chart 3**), then compared to a situation where wealth is more evenly distributed, many people do not have the resources to set up their own business, and many projects go unrealized.

Chart 3
United States: Market capitalization of the Magnificent Seven (as % of the market capitalization of the S&P 500)



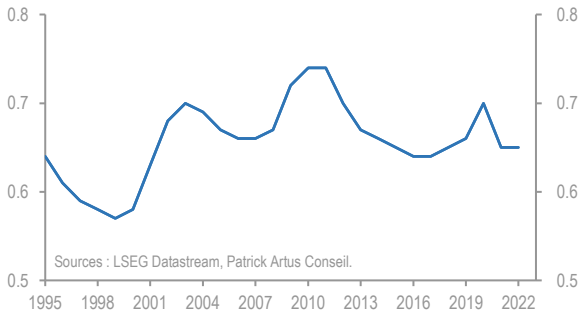
The presence of **"superstar" companies** reduces the number of new companies created, reduces the overall incentive to innovate (companies other than superstars have a reduced incentive to innovate due to the risk of failure[1]), reduces the amount of financing available to other companies, reduces the level of competition in markets[2], hence the slowdown in productivity.

The Trump administration's policy targeting research institutions

The Trump administration has systematically cut funding for public research agencies (e.g. the National Institute of Health, the National Science Foundation, the Environmental Protection Agency), forcing the National Science Foundation, for example, to reduce the number of its associate researchers from 2,000 to 1,000. The same policy is being applied to universities (federal funding for universities amounted to $33 billion in 2023, to which must be added federal student aid; 13% of American universities' revenue comes from federal contracts).

This reduction in public research budgets (particularly strong for research on vaccines, on certain diseases including AIDS, and on diversity and inclusion) **will reduce the amount of public R&D in the United States**, and hence the country's capacity to discover breakthrough innovations.

Chart 4
United States: Public R&D spending
(as % of nominal GDP)



Summary: growth in the United States will slow not only in the short term, but also in the long term

In the short term, the rise in US inflation resulting from higher tariffs will reduce household consumption, and hence growth.

But long-term growth can also be expected to come down in the United States, owing to the increasing concentration of individual wealth and the emergence of "superstar" companies, as well as the reduction in federal support for public research agencies and universities.

[1] Ph. AGHON, N. BLOOM, N. BLUNDELL, R. GRIFFITH, R. HOWITT (2005) "Competition and Innovation: an inverted-U Relationship" Quarterly Journal of Economics, Volume 120
[2] G. GUTIERREZ, T. PHILIPON (2019) "Fading Stars" American Economic Association, Papers and Proceedings, Volume 109

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