Flash Economics

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The main difference between American and European (and French) companies

American companies have a culture of profit-seeking, which explains why we observe in the United States a distortion of the distribution of income to the detriment of wages (equivalently an increase in the profit margin rate), high income inequalities and a high poverty rate.

On the contrary, companies in the Eurozone and French companies try to achieve a fair distribution of income, as shown by the stability of income distribution and the low level of income inequality and poverty compared to the United States.

Therefore, it would be unjust to hold European and French firms responsible for an undue culture of profit-seeking, and, in Europe or France, skewing the income distribution against companies could harm investment or result in an excessively high level of corporate debt.

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American companies have a culture of profit at the expense of their employees, which is not true for companies in the Eurozone or for French companies

Everything suggests that American companies have a culture of profit-seeking, whereas companies in the Eurozone or French companies appear to strive for a more equitable distribution of income. This can be seen:

- In the evolution of the **distribution of income between wages and earnings** (**Charts 1A/1B/1C** compare the evolutions of real wages per capita and productivity per capita), and similarly in the evolution of profit margin rates (**Chart 2**);

Chart 1A
United States : Real compensation per hour and productivity per capita (100: 2002.Q1)

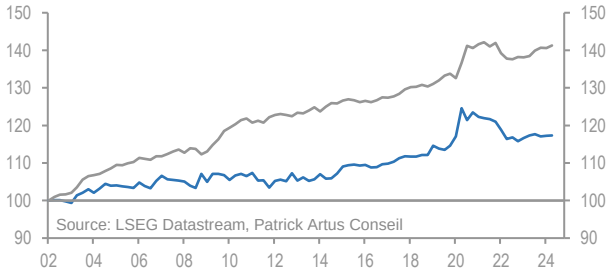


Chart 1B
Euro zone : Real wage and productivity per capita (100: 2002.T1)

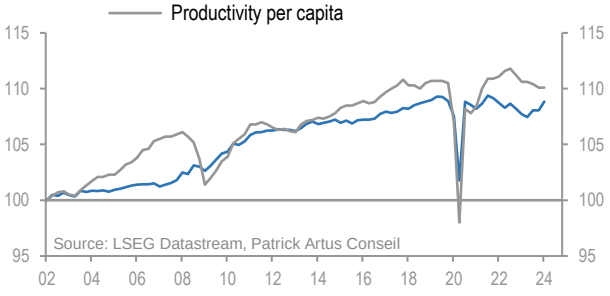


Chart 1C
France : Real wage and productivity per capita (100: 2002.T1)

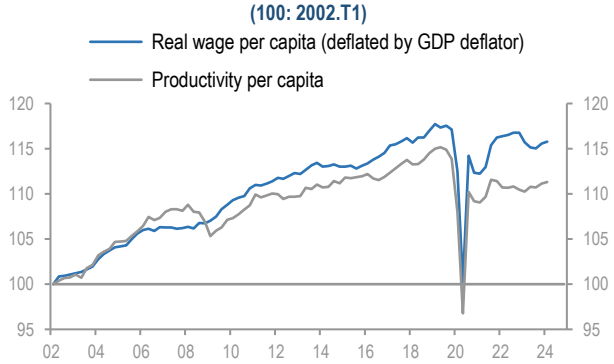
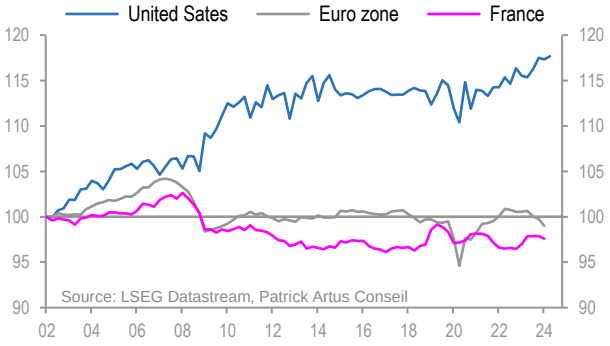
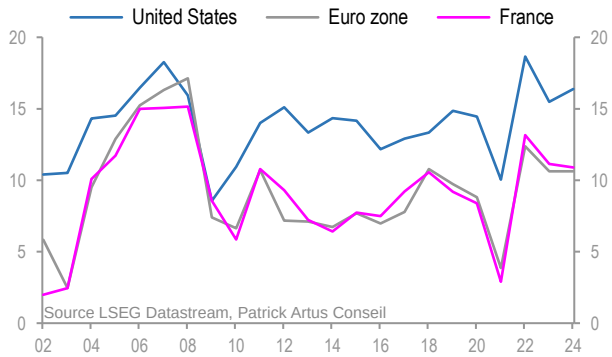


Chart 2
Ratio between GDP deflator and unit labour cost (100: 2002.Q1)



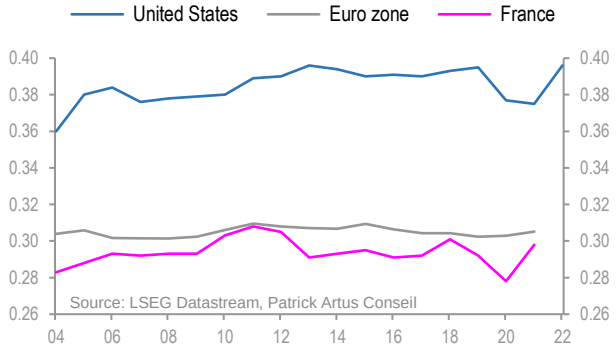
- In the level of **return on equity (ROE), Chart 3;**

Chart 3
ROE (as %)



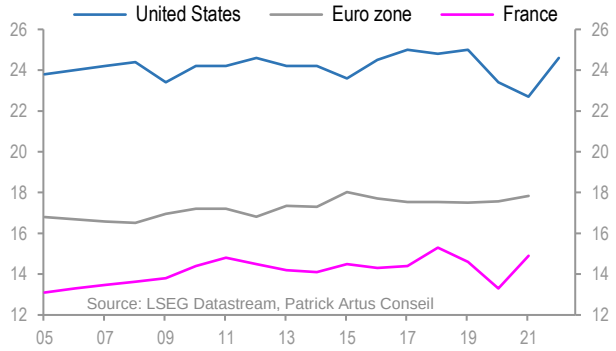
- In the level of **income inequalities** (measured by the Gini index of income inequalities), **Chart 4;**

Chart 4
Gini index of income inequalities (after redistribution)



- In the proportion of the population **living under the poverty threshold (Chart 5).**

Chart 5
Poverty rate*



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

However, the call for a skewed income distribution favoring employees typically resonates in Europe, especially in France.

The observation that American companies want increasingly higher profits (by holding back wages, by securing monopolistic positions) while European and French companies tend toward seeking a fair distribution of income may be surprising **since it is in Europe, and particularly in France, where a shift in the distribution of income in favor of employees is requested.**

We must bear in mind **the repercussions of a significant shift in the distribution of income towards employees:**

- **Weakening of corporate investment (Chart 6) or an increase in their debt (Chart 7);**

Chart 6
Investment of non-financial corporations (in value terms, as % of nominal GDP)

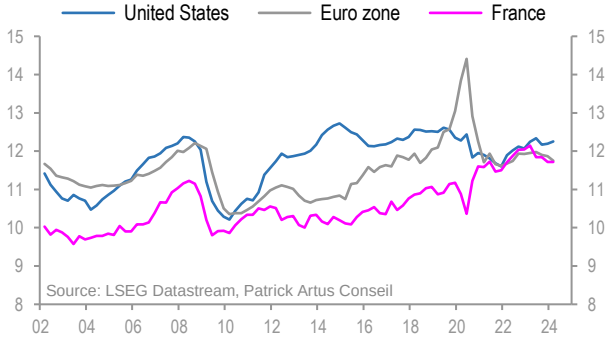
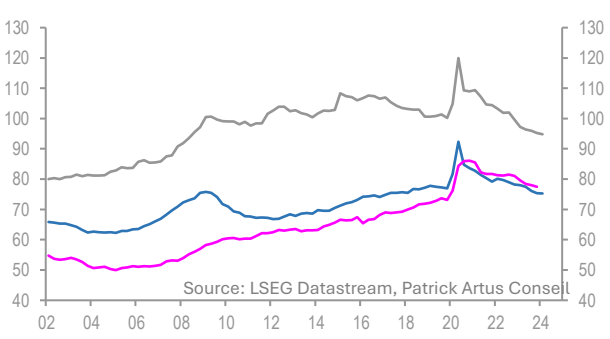


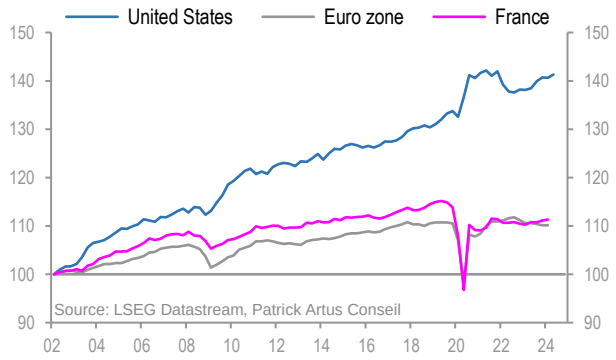
Chart 7
Non-financial corporate debt (as % of nominal GDP)



- **Further decline in the attractiveness of Europe (and France)** compared to the United States, with returns on capital in Europe and France falling further compared to their level in the United States;
- Reduction of the national savings rate, which means an increase in consumption and a decrease in investment.

We must also remember that **the Eurozone and France have been experiencing a decline in labor productivity since 2017 (Chart 8)**, which implies that any increase in real wages implies a decrease in profits.

Chart 8
Productivity per capita (100: 2002.Q1)



Summary: what strategy for European and French companies?

A more advantageous approach than skewing the income distribution towards wages, in Europe and France, **would consist in improving productivity gains**, with an increase in technological investments and Research and Development expenditures, as well as an improvement in the efficiency of the educational system.

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