Flash Economics

N° 157
December 26th, 2025

How far behind the United States is Europe, and why is it so?

Since Mario Draghi's report, many economists have examined Europe's lag behind the United States. There is first a hurdle to measuring this lag: we can use GDP per capita, GDP per capita in volume terms, GDP per capita in purchasing power parity terms, or hourly productivity.

We prefer to use hourly productivity as a measure of the relative productive efficiency of economies. From 2002 to 2023, hourly productivity grew 12% more in the United States than in the European Union, and 16% more in the United States than in the Euro zone.

This raises the question of why this gap exists. Clearly, it is mainly due to the slow development of information and communication technologies in Europe, which can be linked to low spending on research and development, low investment in new technologies and strong employment protection.

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

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

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.

How far behind the United States is Europe in terms of revenue generation?

Several measures of this lag can be considered, based on:

- **GDP per capita in dollars** (**Charts 1A/1B**), but a high GDP value may be the result of high inflation, and this measure is also influenced by exchange rate movements;

Chart 1A
GDP per capita (in thousands of US dollars)

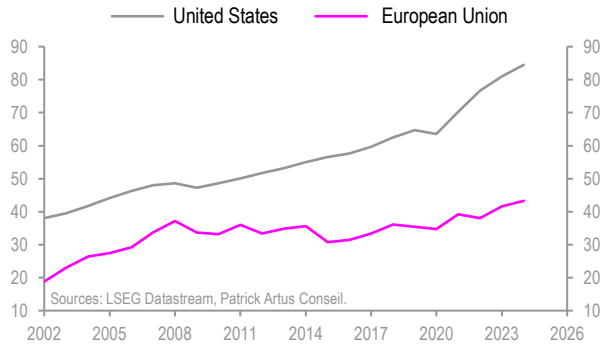
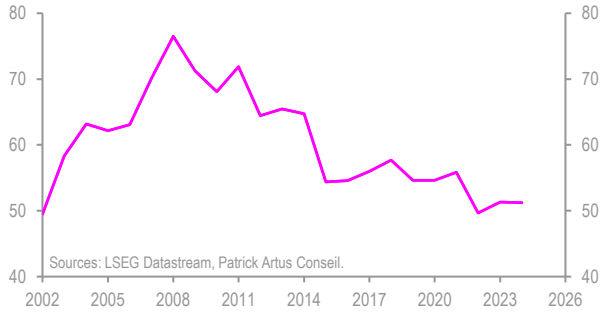
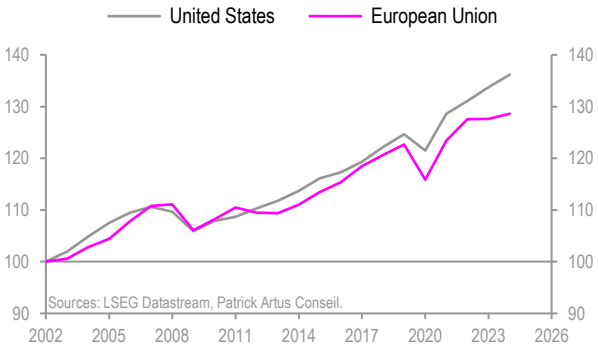


Chart 1B
European Union: GDP per capita (as a percentage of US GDP per capita)



- **GDP in volume (in constant dollars or euros) per capita** (**Chart 2**);

Chart 2
Real GDP per capita (2002 = 100)



- **GDP in purchasing power parity** (adjusted for price level differences between countries), **Charts 3A/3B**;

Chart 3A
GDP per capita (in thousands of constant PPP dollars)

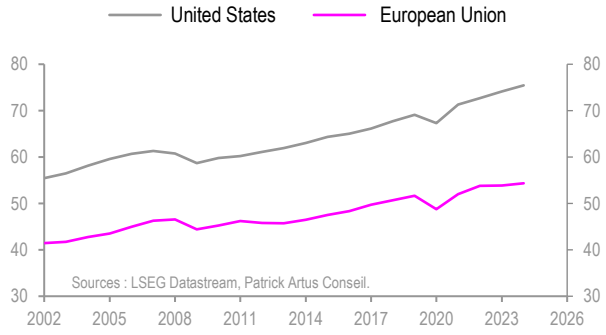
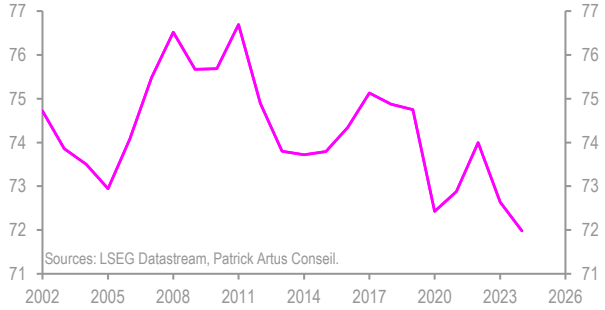
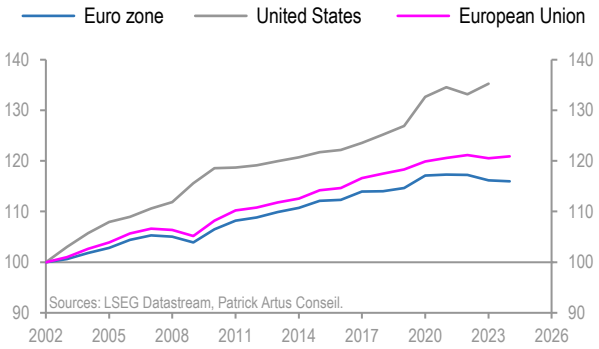


Chart 3B
European Union: GDP per capita in constant PPP dollars (as a percentage of US GDP per capita in constant PPP dollars)



- **Hourly labour productivity** (**Chart 4**).

Chart 4
Real labour productivity per hour worked (2002.Q1 = 100)



We can see:

- That we should not consider the comparison of GDP per capita in dollars, since the growth in US GDP is also due to prices having risen more in the United States than in Europe;
- That GDP in volume terms grew 6% more in the United States than in the European Union between 2002 and 2025;
- That GDP per capita in constant dollars and purchasing power parity has grown more slowly in the European Union than in the United States since 2002;
- That hourly productivity increased by 12% more in the United States than in the EU and by 16% more in the United States than in the Euro zone between 2002 and 2023.

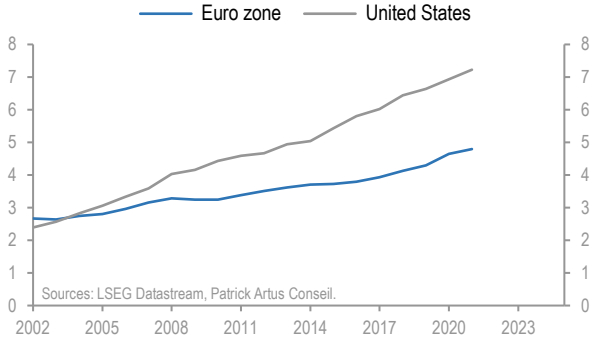
We prefer to compare hourly productivity, as GDP in volume terms includes non-market GDP (the value added by public administrations, which is measured on a flat-rate basis). GDP in PPP terms is based on the difficult comparison of price levels.

This measure of productivity indicates that the productive efficiency of the United States increased by 12% relative to that of the EU between 2002 and 2023.

How can Europe's lag be explained?

The size of the information and communication technology (ICT) sector is much larger in the United States than in Europe (here we use data for the Euro zone rather than the European Union), **Chart 5**.

Chart 5
Gross value added of the ICT sector
(as % of real GDP)



However, labour productivity in the ICT sector is growing rapidly, and much faster in the United States than in the Euro zone (Charts 6A/6B).

Chart 6A
Labor productivity in the ICT sector (2002 = 100)

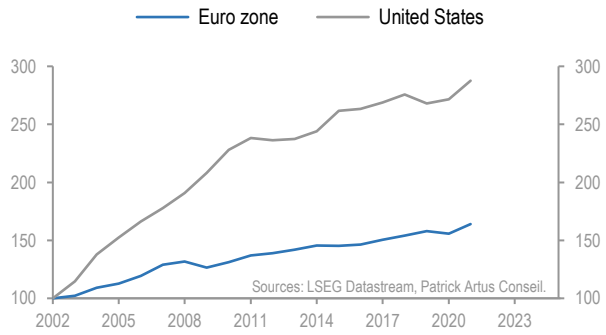
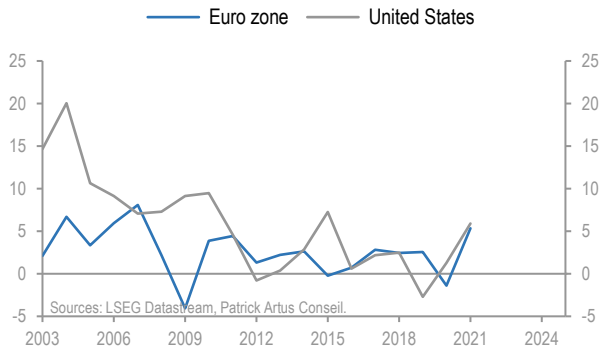


Chart 6B
Labor productivity in the ICT sector (Y/Y as %)



The average annual **gap between productivity gains in the United States and the Euro zone in the ICT sector** from 2002 to 2024 **is 4.5 percentage points per year,** with this gap being particularly high between 2003 and 2011.

The average annual **gap between productivity gains in the economy as a whole** from 2002 to 2024 **is just under 0.6 percentage points per year** (**Charts 6A/6B**).

The weight of ICT in GDP in 2022 was 7.3% in the United States and 4.9% in the Euro zone.

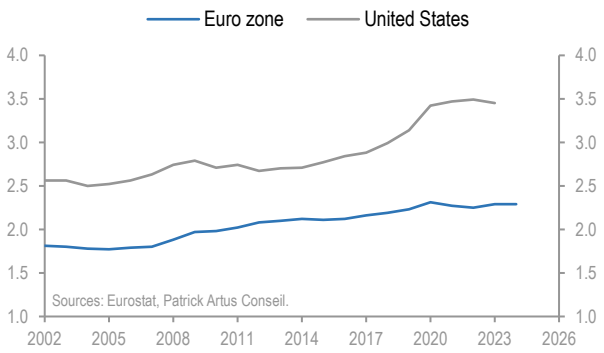
If the Euro zone economy had the same weighting in ICT as the United States, and the same growth in ICT productivity as the United States, the Euro zone would show an additional 0.52 percentage points of productivity growth per year, which corresponds to 87% of the gap in productivity growth between the United States and the Euro zone observed since 2002.

How can we explain the gap in the weight and growth of the Information and Communication Technologies sector between the United States and the Euro zone?

This gap is linked to:

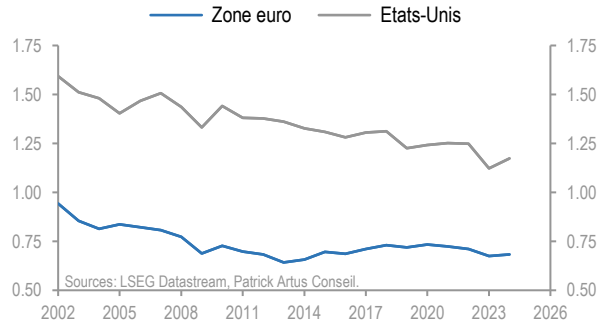
- **Low research and development expenditure in the Euro zone** (**Chart 7**);

Chart 7
Total R&D spending (as % of nominal GDP)



- **Low investment in new technologies in the Euro zone** (**Chart 8**);

Chart 8
ICT investment excluding software
(in value terms, as % of nominal GDP)



- **Strong employment protection in the Euro zone**, which leads to high costs for redundancies and restructuring, which are frequent in the Information and Communication Technologies sector, thereby hindering the development of this sector in Europe.

Summary: Why is the Euro zone lagging behind the United States?

Per capita GDP grew by 6.2% less in Europe than in the United States between 2002 and 2024; hourly labour productivity grew by 12% less in Europe than in the United States between 2002 and 2023.

We have seen that this loss of income per worker is mainly due to the smaller size of the Information and Communication Technologies sector in Europe compared to the United States and to lower productivity gains in this sector compared to the United States. This smaller size and lower productivity gains are due to low spending on research and development, low investment in new technologies and strong employment protection in Europe.

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.