Flash Economics

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Can the United States continue to favour profits so heavily over wages?

A persistent feature of the US economy, which has become more pronounced over the recent period, is that productivity gains are allocated primarily to profits, at the expense of wages. The very rapid rise in profits that results from this makes it possible to finance large-scale investment, particularly in artificial intelligence, and is supporting the increase in equity indices and in the wealth of US households. Conversely, weak wage growth is weighing on household consumption, despite the decline in the household saving rate.

This dynamic carries a risk of crisis, which could take two forms:

- the realisation that part of the investment undertaken is insufficiently profitable, and hence that part of profits has been inefficiently allocated, which would trigger a stock market crisis;
- a crisis of insufficient demand: weak household demand would mean that new production capacity does not meet sufficient domestic demand in the United States. Such a crisis would be amplified by the fact that the United States imports on a large scale the equipment (semiconductors, memory chips, hard drives) required for its investment effort.

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In the United States, the distribution of added value continues to shift in favour of firms (profits)

The United States is experiencing **a continuous shift in the distribution of** added value in favour of profits and at the expense of employees, which has become more pronounced over the recent period. **Chart 1A** shows **the gap between growth in hourly labour productivity and growth in real hourly wages**. **Chart 1B** traces the **decline in the labour share of added value**.

Chart 1A
United States : Productivity and hourly compensation of a private sector employee, deflated by the GDP deflator (2010.Q1 = 100)

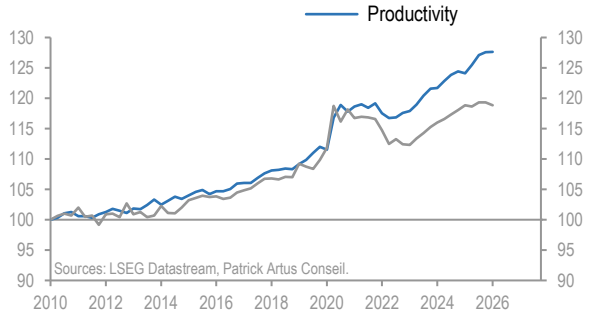
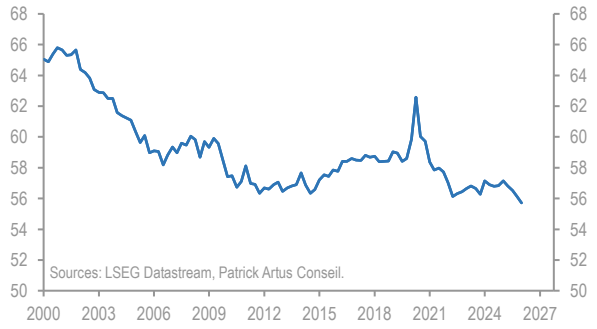


Chart 1B
United States: Labour share of value added in non-financial corporations (as % of value added)



The sharp rise in corporate profitability resulting from this shift in the distribution of value added (**Chart 2**) has significant effects on the US economy:

- the capacity to finance large-scale investment, particularly in intellectual property products and in artificial intelligence (**Charts 3A** and **3B**);
- a sharp rise in equity indices (**Chart 4**).

Graphique 2
Etats-Unis : profits après intérêts et impôts des sociétés non financières (en % du PIB)

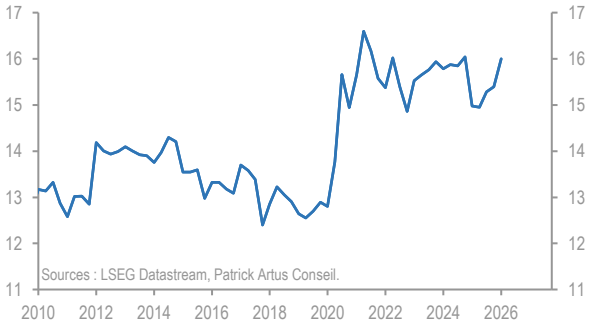


Chart 3A
United States: Private non-residential fixed investment (as % of GDP)

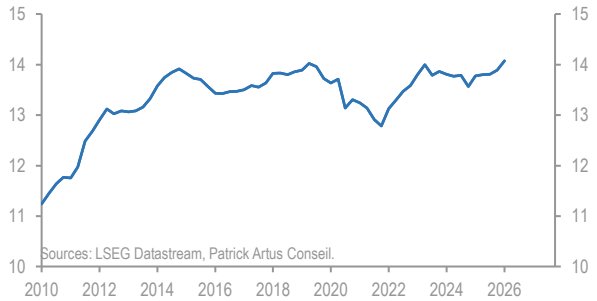


Chart 3B
United States: Private investment by component (as % of GDP)

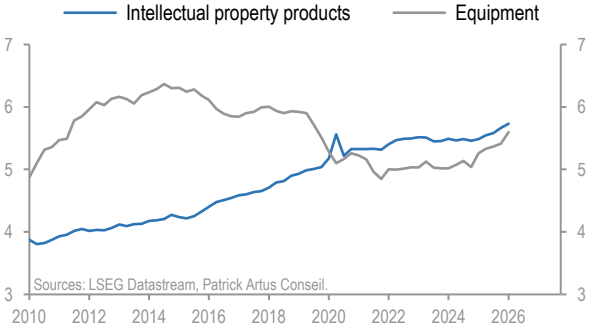
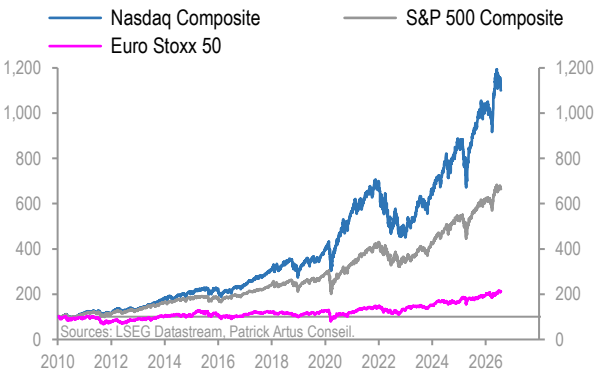


Chart 4
Stock market indices (01.01.2010 = 100)



This pattern of distribution of value added nevertheless entails risks that should not be underestimated.

First risk: an inefficient allocation of profits

The first risk is that of an inefficient allocation of part of these profits: the very high level of profitability encourages firms to undertake **investment whose returns are uncertain**. Investment by Microsoft, Alphabet, Amazon, Meta, OpenAI and Anthropic in the development of artificial intelligence models would thus reach USD 750 billion in 2026 and probably USD 1,000 billion in 2027. There is no guarantee that all of this investment will deliver the returns anticipated, at a time when the price-earnings ratio of the Nasdaq stands at 36, against a historical average of 28.8. **The risk is therefore that of a downward revision of earnings expectations**, which would bring about a marked fall in US equity markets.

Second risk: a crisis of insufficient demand

The shift in the income distribution at the expense of employees in the United States, implies **weak household demand**: slower growth in consumption (**Chart 5**) and a decline in residential investment (**Chart 6**).

Chart 5
United States: Annualised quarterly % change in real household consumption

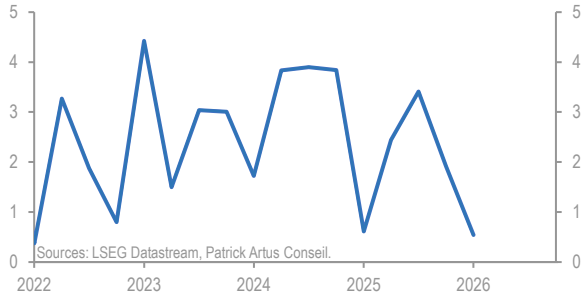
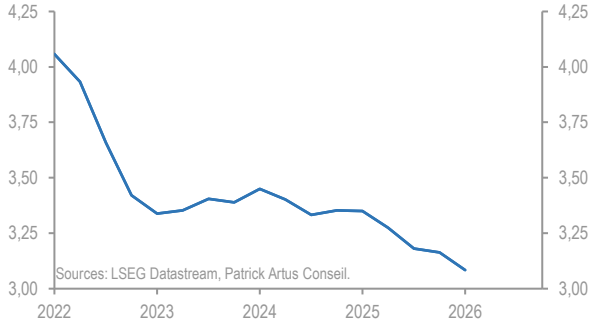


Chart 6
United States: private residentiral investment (as % of GDP, in volume terms)



Furthermore, **the strong growth in corporate investment has only a limited effect on GDP growth**: the import content of investment related to artificial intelligence is high, meaning that imports are rising very rapidly (**Chart 7**).

Chart 7
United States: Imports (Q/Q annualised, %)



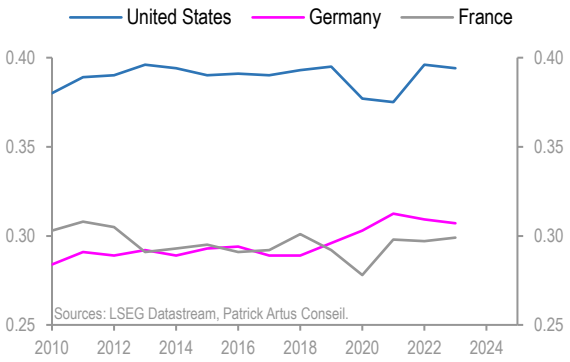
The United States could therefore face **a shortage of domestic outlets**, owing to weak growth in household income and to its dependence on imports of computer hardware (semiconductors, memory chips, hard drives).

Summary: a more equitable distribution of revenue in the United States would be preferable

If the distribution of income in the United States were more favourable to employees and less favourable to firms:

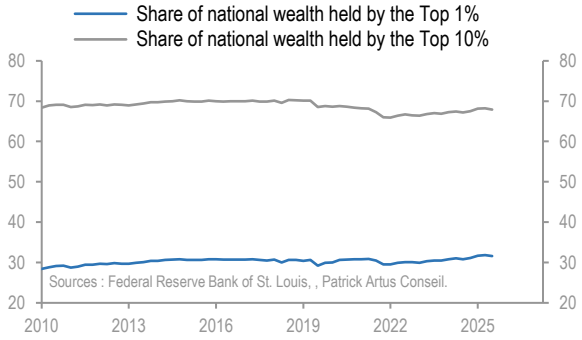
- demand from US households for goods, services and housing would be more dynamic, and the risk of a crisis of insufficient demand would be reduced;
- US firms, having more limited financial resources at their disposal, would be more selective in their investment choices;
- income inequality (Chart 8) and wealth inequality (Chart 9) would finally be reduced. The functioning of the US economy would thus be preferable from the standpoint of both efficiency and equity.

Chart 8
Gini index * of income inequalities (after redistribution)



*Gini coefficient 0 = complete equality; 1 = complete inequality

Chart 9
United States: Share of national wealth held by the 1% and the 10% of individuals with the highest wealth (as %)



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