

# To the point!



Cross-Asset- and Strategy-Research

## A Postcard from New York City

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### Why the U.S. economy is outpacing Europe – for now!?

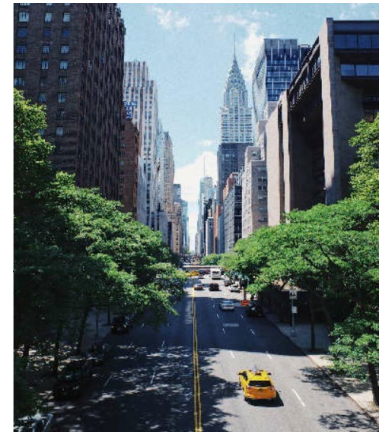
This week I'm writing to you from the city that never sleeps, New York. Those of you who have recently crossed the pond will likely have also experienced an economy in rude health. Since the fourth quarter of 2019, just before the outbreak of the pandemic, the U.S. economy has grown by 8.7%. In the same period, the Eurozone managed less than half of that, with only 3.4%. And Germany? Well, let's get it out of the way: a mere 0.3%.

#### Why the U.S. economy is so dynamic

The fact that the American economy is growing at a faster pace than the German one is not new. In 1980, the U.S. GDP was 2.3 times that of Germany. Today, the U.S. economy is four times as large! Why are the Americans pulling so far ahead?

The first important aspect is labor. The demographics in the U.S. are simply much more promising than Europe's, mainly due to continuous immigration. Over the last 40 years, the number of employees in the United States has grown three times as fast as in Germany. And not only that: people there also work longer. A professional in Memphis or Miami works over 30% more hours annually than their counterpart in Munich or Magdeburg. Nowhere does the effective working time decrease as rapidly over time as it does in Germany. Less work, less output. Quite simple, really. The U.S. clearly has the upper hand here.

The second significant factor is stronger U.S. productivity growth, especially since the turn of the millennium. Since then, productivity has grown annually on average almost twice as fast in America as it has here. This is because the U.S. economy is more flexible, as it is less burdened by regulation and bureaucracy. But also, because venture capital is much more readily



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The U.S. is  
booming,  
Germany is  
stagnating

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available. This allows young companies to quickly make innovative products and ideas market-ready. That's one reason why America is so dominant in the technology sector, where productivity advances are particularly rapid.

The lessons for Old Europe are clear: less bureaucracy (I know, yawn, once again...) and more support for start-ups. And, oh yes, I almost forgot: working a bit more wouldn't hurt either.

### The risks for the U.S. economy are growing

There is another factor that has contributed to the dynamic development in the U.S.: excessive budget deficits. Despite high growth, government debt has risen by 30 percentage points of GDP since 2010, to nearly 120% of GDP! In the Eurozone, debt grew by just a third of that (9 percentage points), and in Germany, the debt ratio even fell by about a fifth (see chart).

This perpetual fiscal stimulus is something the U.S. will not be able to sustain. Sooner or later, Washington will have to consolidate. This will dampen demand and growth. Also, should Trump win the election, he announced that he would deport up to 20 million immigrants. This will result in less work being done in the U.S.! Europe and America would suddenly look more similar economically.

However, hoping for this would be fatal, as it would be associated with numerous side effects for the global economy. It would be better to change the European course decisively and tackle overdue supply-side reforms. American courage and confidence are what we should emulate! But we need to get moving!

While we are at it: please join me congratulating my colleagues in the U.S., who will celebrate the 25th anniversary of the LBBW branch in New York! Many happy returns!

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In the U.S.  
people simply  
work more!

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National Debt (as a percentage of GDP)



Sources: Statista, LBBW Research

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