

Why the USA grows faster than the Eurozone

The USA has for some years put in a much better economic performance than the Eurozone. Thus year its growth rate is around double that of the Euro area. Part of it stems from the monetary policy being pursued, some of it from the fiscal policy and much of it from the enterprise policies.

The Fed has twin objectives of keeping inflation down and promoting growth. It has been pragmatic about pursuing these objectives. It made bad mistakes at the end of the last decade like other advanced country Central banks, but has done much better since 2010. It did tighten too much at the end of 2018 but has now corrected for the mistake. Despite over 2% growth in the economy the Fed has recently pumped \$150bn extra liquidity into markets to facilitate bank lending and continued growth.

The ECB has ostensibly followed a more dovish stance than the Fed with lower rates and more recent Quantitative easing. It has, however, failed to get all the main commercial banks in its system to address their balance sheet and bad debt problems, so there is still difficulty in transmitting cheap money into more well based loans to get the economies moving faster.

The President of the USA put through major tax cuts which acted as a substantial boost to US growth in the last two years. At the same time the Congress also put through various public spending increases. As a result there was an expansion of the fiscal deficit, which helped generate more activity. In the Euro area the strict application of the Maastricht rules with tough controls on debt as percentage of GDP has left little or no room for fiscal expansion.

The USA has a more enterprise oriented culture, with a very strong technology sector that has been leading the world. Lower taxes, more business and start up friendly regulations and a more plentiful supply of equity and credit for new business has ensured the US has grown faster and dominates the western digital world.