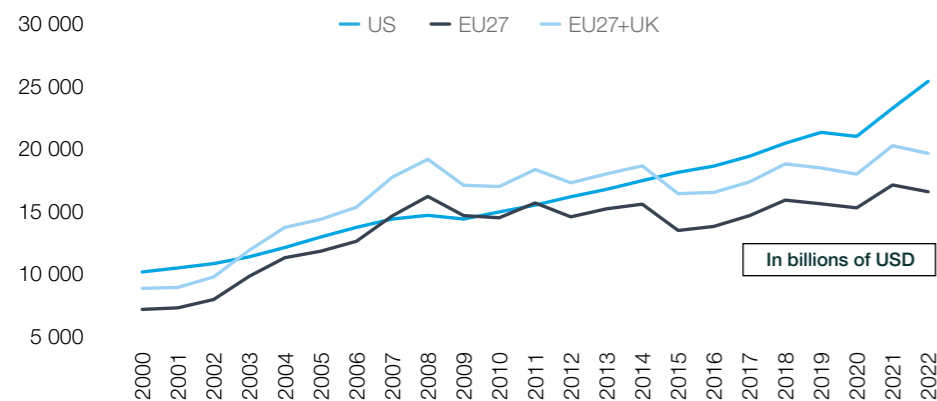


In this final edition of the Economic Brief before the summer break, two rather distinct topics come to the fore: US/EU rivalry and the green transition. We will take a look at how the two juggernauts of the West compare in certain areas of the economy, and we will examine how the green transition is driving change and how such a mammoth undertaking can be financed.

After a period of somewhat cooler relations during the Trump administration, diplomacy between the US and the EU partially recovered following Biden's election in 2020. The war in Ukraine has strengthened these transatlantic ties still further; however, it has also shown just how dependent Europe remains on the US for its security. And looking at the bigger picture, it seems that Europe has been falling behind its partner since the Great Recession of 2008 in matters of the economy, technology and the military.

GDP in value: 15 years of European stagnation



With regard to the economy, let us consider GDP in absolute terms and its growth over the past two decades. The graph opposite shows just this, US, EU and EU+UK GDP since 2000 in billions of US dollars. In 2008, the EU's GDP amounted to \$16.3 trillion, compared with \$14.8 trillion in the US. Fast-forward to 2022 and the roles reverse: the US economy reached \$25 trillion, whilst that of the EU+UK came to \$19.8 trillion. The slowdown on the eastern shore of the Atlantic is clear for all to see.

Sources: Accuracy, IMF

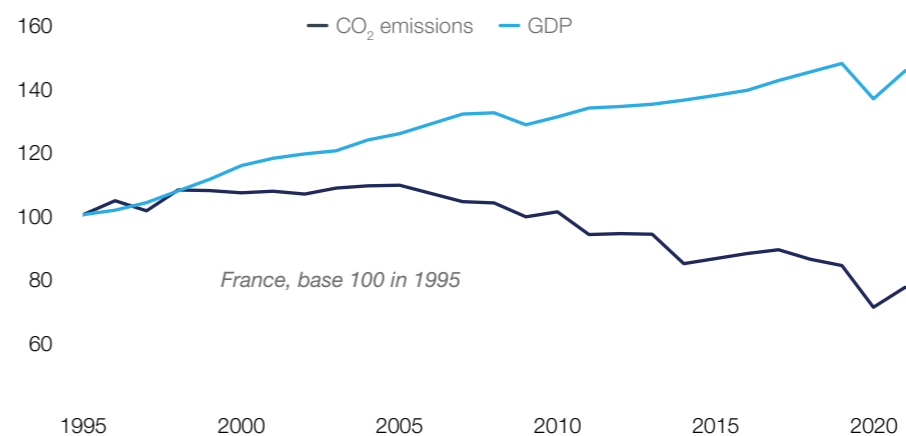
The US also dominates the tech sector, counting among its ranks seven of the top ten tech businesses in the world in terms of market capitalisation. And with the artificial intelligence sector flourishing, this dominance looks set to continue.

As for military spending, the US has by far the largest budget in the world, spending an estimated \$800 billion in 2021, or 3.5% of its GDP. Though Europe has been accelerating its military spending, reaching a record €214 billion in 2021, it still amounts to only 1.5% of the GDP of member states. What is more, the coordination of Europe's defence policy is not yet optimised; the Union has work to do.

Of course, Europe stands out in other areas – the luxury and tourism sectors come to mind. Inequality in the US also exceeds that of all the major European economies. And when it comes to life expectancy and other public health matters, questions can legitimately be asked about the situation in the US. It remains to be seen whether the green transition and the opportunities it will provide will further shake up the balance of power between the two partners.

In light of the challenges raised by climate change, it seems fair to say the requisite changes to the energy system will bring about a new industrial revolution. In contrast to its predecessors, this one will be rapid, global and driven by public policy rather than innovation.

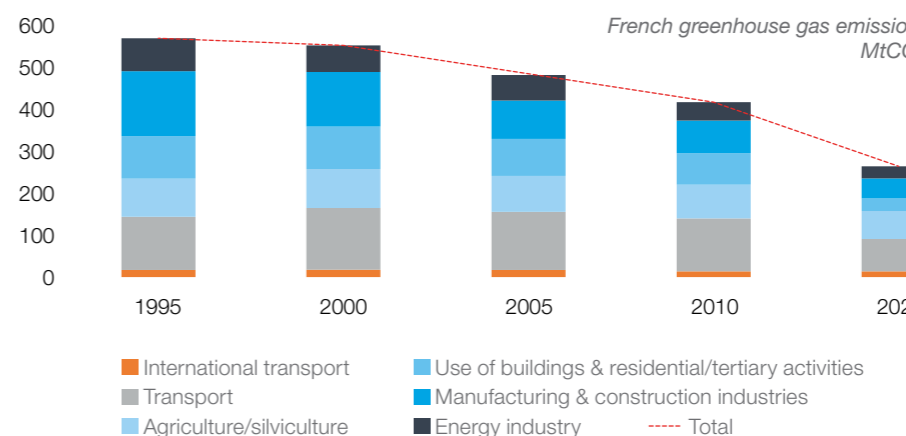
France: cleaner growth...



Sources: Accuracy & Macrobond

According to Pisani-Ferry, a well-known French economist, there will be three economic mechanisms driving this revolution: the gradual elimination of the capital accumulated in polluting industries and its replacement with new capital built up for greener industries; a drive for energy conservation by reducing the energy intensity required to create wealth, for example through changes in consumption and lifestyle patterns – this is demonstrated in the graph opposite showing the decoupling of economic growth and CO₂ emissions for France over the past 30 years; and the redirection of technical progress towards saving raw materials and consuming less energy.

...but the efforts must continue



Sources: Accuracy & France Stratégie

The EU's ambitious 2030 objective to reduce greenhouse emissions will require doing in only 10 years what France has taken the past 30 years to achieve. This effectively equates to reducing emissions by 5% annually. As we can see in the graph opposite, some sectors in France have struggled more than others to reduce their emissions over this time, notably transport. Europe will have to hit the accelerator for such sectors if it is to meet its goal.

The investment required for decarbonisation (both public and private) amounts to two points of GDP each year until 2030. Carbon taxes and regulation appear to be the most suitable tools to finance the transition, and private tax on the most wealthy represents another lever to be used. Public debt will also come into play; in Pisani-Ferry's view, delaying the efforts to be made for the green transition for the sake of better controlling public debt would be senseless – after all, any delay now will lead to even more expensive measures required in the future. And it is important to note that the transition is naturally rather unequal. Households' contributions to global warming are very unevenly distributed, whilst the cost of investing in low-emission durable goods (e.g. electric vehicles and heat pumps) will be relatively higher for the least well-off. Government support will have to be stepped up to make the transition politically and socially acceptable.

It is to be hoped that all this investment will lead to a positive return, in terms of both the climate and the economy. In the long term, green growth may prove to be even stronger than its "brown" equivalent, and carbon neutrality may be reached without resorting to degrowth. However, the EU finds itself faced with a hierarchy of choices to make: it cannot be the champion of the climate, the champion of multilateralism and the champion of budgetary virtue all at the same time...