



Why The US Economy Stays Strong Even When Its Policies Shock The Rest of The World

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The US economy is [continuing to grow](#) faster and generate more new jobs than Europe. Annual national income growth over the past five years has averaged 3.3% in the US against 2.6% in the EU. In the first quarter of 2026, the EU's GDP was just 0.7% higher than a year before, while that of the US was up 2.6% on comparable measures.

These figures defy the [widespread predictions that](#) the US would lose its growth advantage after its government imposed a global trade tariff regime in 2025 and, one year later, started a war with Iran. Economists see several factors behind the resilience of the [US economy](#).

The US runs consistently [wider budget deficits](#) than the EU, UK or China. By spending more than it collects in tax, the US government creates more income for the people it employs and the businesses it buys from. This extra income in theory boosts demand in the economy, pushing output growth higher and reducing unemployment.

Most European governments also run budget deficits. The [average budget deficit](#) of EU countries in 2025, for example, was 3.1% of GDP. But the US deficit, at 5.8% of GDP that same year, is giving a much stronger stimulus.

The US also channels a higher proportion of its GDP into [business investment](#) and [research and development](#) than the EU. Europe was spending €270 billion (£230 billion) [less than the](#) US on innovation in 2021, with this spending concentrated on its century-old car industry rather than new technologies.

Since 2025, AI has [been the focus](#) of US investment. This has helped the US maintain its hold over global technology and digital platforms. Rapid uptake of AI across US industry has also [widened the margin](#) by which its labour productivity growth is outpacing Europe's. Output per hour in

professional services has increased by over 18% since 2019 in the US compared to just 5% in the EU.

Economy-wide productivity gains have allowed [US real wages](#) (wages adjusted for inflation) to edge higher since 2019. This has sustained consumer demand while also enabling the strong profit growth [that has lifted](#) US share prices to record levels. In contrast, average real wages in the EU [have barely grown](#) over the past 20 years while corporate profits in Europe remain subdued.

The US technological lead could be dented by Donald Trump's immigration clampdown, [which extends to](#) skilled scientists and students. [Research](#) suggests annual GDP growth rates in the US could currently be as much as 0.8 percentage points lower than if net unauthorised immigration had stayed on its pre-2025 trend.

But the Trump administration and its tech-entrepreneur supporters also [credit their success](#) to more freedom to gamble with new ideas, while Europe regulates them more heavily and China tries to harness them for state control. Although the EU generates as many [tech start-ups](#) as the US, many relocate there when they start to expand.

Another factor explaining the resilience of the US economy is that American industry benefits from substantially [lower energy costs](#) than in Europe. The US produces [more fossil fuels](#) than Europe and taxes them less. It is also advancing fast with [cheap renewable sources](#), despite the government's scepticism towards solar and wind.

Reliance on fossil fuels, and indifference to carbon emissions, may raise the US's long-term economic vulnerability. But for now they ensure a cost advantage that is allowing the US to [regenerate its manufacturing](#) and meet much of the global demand for data-based services such as e-commerce and generative AI.

Favorable financial engineering

The [US spends more](#) on goods and services than it produces domestically. This results in a large [current account deficit](#), which widens as US growth picks up. To finance this deficit, the US has to borrow from the rest of the world continuously.

For most countries, the resulting rise in liabilities to other countries would lead to a weakening currency and higher inflation, or a spell of slower growth to rebalance the current account. However, the US benefits from global use of the US dollar.

The US dollar is the universal standard for trade in commodities. And due to a perception that the US will continue delivering high returns on investment and repaying its debts, the rest of the world typically responds to shocks such as wars by moving money into US assets – even if US policy is responsible for those shocks.



Valéry Giscard d'Estaing meeting with the then-US president, John F. Kennedy, in the White House in 1962. [Abbie Rowe / US National Archives and Records Administration /](#)

In the 1960s, France's then-finance minister, Valéry Giscard d'Estaing, who later served as its president, railed against what he called the [“exorbitant privilege”](#) the US gains from printing the world's currency. The US will retain this privilege as long as global trade and finance are mostly conducted in US dollars.

This situation is [unlikely to change](#). The EU's efforts to unify its financial markets to support its single market [have proceeded slowly](#) and were set back by Britain's 2016 decision to leave the bloc. Britain and the EU have lost global financial market share since the UK broke away.

Attempts by China, Russia and major oil-exporting countries to launch an [alternative reserve currency](#) have also made little progress. But they might not regret this. The dollar's global role makes it harder for the US to control its inflation, as it has to watch the wider impact of raising interest rates.

When inflows of foreign capital strengthen the dollar, US industry also becomes less competitive on the global stage. And with so many governments worldwide under pressure to balance their budgets, America's deep-pocketed consumers and businesses might still be the [“engine of growth”](#) that enable other regions to expand.

Impressive economic performance between 2021 and 2024 did nothing to revive the political fortunes of Trump's predecessor, Joe Biden. Continuing the positive trend has [proved similarly fruitless](#) for Trump. [At only 36%](#), his approval rating is extremely low.

This is the downside of growth driven by government deficits and [rising corporate profits](#). Many Americans feel they are paying for higher prices out of wages that are rising only marginally, and will [struggle to afford](#) any future rise in living costs.

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