Why are American salaries higher than European?

Because an American hour of work produces more – backed by more capital, cheaper energy, and a market of 330 million buying in one language.

That's the whole answer in one sentence. The anatomy of it is worth five minutes, because none of the four parts is destiny.

Reason one: capital per worker

Wages ultimately track what an hour of work produces, and an hour produces more when there is more machinery, software and money behind it. This is where America has quietly pulled away: investment per worker – from data centers to automation to venture funding – has compounded faster there for twenty years. European savings are enormous, but they sit in bank deposits and government bonds; American pensions buy equity in American firms, which buy tools for American workers. Same savings behavior, opposite compounding.

Reason two: cheap energy

An American factory buys natural gas at roughly a third of the European price and electricity at about half. That difference doesn't just show up on the energy bill – it decides which industries exist at all, and energy-intensive industries pay well. Some of this is geology Europe cannot vote itself some of it is a fragmented energy market Europe absolutely can.

Reason three: the size of the playing field

A firm serving 330 million customers under one law grows larger than a firm navigating 27 regimes – and large productive firms pay the best wages. The IMF has priced Europe's remaining internal barriers as equivalent to a 44 % tariff on goods and roughly 110 % on services. An American company pays no such tariff to scale at home. This is the quiet reason Europe has no Google – and Google-sized companies are wage-setters.

Reason four: the composition effect

America simply has more of the highest-paying industries – software, chips, AI, finance at global scale. That is not an accident of talent (much of it is European talent) but the compound interest of reasons one through three: capital, energy and scale decide where the frontier industries settle, and frontier industries drag the whole wage distribution up.

What this is not

It is not that Americans are smarter, work "harder" per hour, or deregulated their way to prosperity – Europe's most-regulated decades produced Nokia, and America is hardly rule-free. And part of the annual gap is European leisure, honestly chosen and arguably well spent.

But notice what the four real reasons have in common. Capital depth, energy integration, market scale, frontier industries – each is a function of whether a continent of 450 million behaves like one economy or like twenty-seven medium ones. American salaries are what a unified continent pays. European salaries are what a fragmented one does.

All questions →

FREQUENTLY ASKED

Is it just that Americans work more hours?

Hours explain part of the annual gap – about 1,800 US hours versus 1,340 German – but not the hourly gap. Output per hour worked is genuinely higher in the US, and that is what sets the wage ceiling.

What does 'more capital per worker' actually mean?

Machines, software, data centers and funding behind each job. American workers are equipped with more invested capital, so an hour of their labor produces and earns more. Investment per worker has grown faster in the US for two decades.

How much cheaper is American energy?

Natural gas costs roughly a third of the European price and industrial electricity about half. For factories, that difference flows straight into wages, prices, or survival.

Does the bigger US market really raise wages?

Yes – scale lets firms grow huge, and big productive firms pay more. The IMF prices the EU's internal barriers like a 44 % tariff on goods and about 110 % on services; American firms face nothing comparable at home.

Could European salaries catch up?

The recipe is known and boring: deeper capital markets, one energy market, a genuine single market for services. Every item is an integration decision – see the Draghi report's ~€800 billion a year.

SOURCES

- OECD: labour productivity levels, average wages, hours worked
- Draghi report (2024): investment gap ~€800bn/yr; productivity two-thirds of the US–EU output gap
- IMF: EU internal barriers ≈ 44 % tariff-equivalent on goods, ~110 % on services
- TTF vs Henry Hub gas benchmarks; Eurostat industrial electricity prices